THE INDIAN FISCAL POLICY

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THE INDIAN FISCAL POLICY

By

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सि॒तासि॑ते स॒रिते॒ यत्र॑ संग॒थे
तत्र॑ प्लु॒तासो॒ दि॒वमुत्प॑तन्ति ।

PREFACE

It was several years ago that I promised myself a volume on India's Fiscal Policy, mainly owing to a mental reaction against some recent academic literature on the subject, which seemed to suggest that Indian economists, in spite of their early pronouncements to the contrary, had abandoned the protectionist bias in favour of the *laissez-faire* ideology. The fulfilment of the promise was delayed; yet, such a volume surveying the whole field of our fiscal policy, becomes very opportune just at the moment for several reasons. In the first place, there is a helpful pause in the Tariff Board's work due to the War and it has become possible to avoid staleness. Secondly, *inter-bellum* years provide one completed period of the fiscal policy which roughly dates from the last war. Thirdly, most of the major industries which are receiving protection at present, will have completed their allotted periods by 1941 or 1942, and, if it were not for the War, should have had to face fresh enquiries by the Tariff Board by now. Finally, there is no doubt that when the war is over, a re-examination of the fiscal issues in the light of past experience and possibly a complete re-orientation of policy, involving the overhauling and systematisation of the tariff machinery and procedure, will be inevitable. What is more, most of the academic literature on the subject has become necessarily out-of-date, while some able analyses of our fiscal policy confine themselves to two or three of the major protected industries only, while examination of the cases of industries denied protection has been generally neglected. No apology, I hope, is therefore necessary for bringing out this study at the present moment.

The scope of the work is indicated by the natural division of the subject into two parts: Part I is styled "The Working of Protection" and gives a descriptive and analytical survey of the industries which Fiscal Policy had to deal with during 1923-40. Part II, on the other hand, is concerned with the

critical and general aspects of the subject. Thus, in Part I, I have attempted a review of the Tariff Board enquiries (numbering about fifty) and a "post-mortem" examination of the measures adopted in each case. I must state without hesitation that it is futile, if not audacious, to question the validity of the Board's findings, especially on the factual side, as some writers seem to have done. The Board has had in each case at its command immense facilities, such as no individual can hope to possess, and, in fact, its Reports happen, in some cases, to be the only authoritative material surveying the industries concerned, somewhat on the lines of the Balfour Committee's *Surveys* in England. It may thus be possible perhaps to criticise the Board's conclusions, if at all, only on the grounds of wrong methodology, inaccurate principles, inaccurate statements regarding well-known national or international events, wrong emphasis, or *non-sequitur* logic and arguments. Though I have not been able to appreciate the conclusions of the Board in some places, I feel that the Tariff Board's work has been generally fair, impartial and almost always the result of painstaking inquiry and penetrating analysis, and that the Board has more often than not erred on the side of caution.

The fiscal problem in India is two-fold: In the first place it has its political side in so far as India has yet to attain the plenitude of powers, known as Fiscal Autonomy, such as the free countries of the world and the Dominions of the British Empire possess. The so-called "Fiscal Autonomy" conceded by the Convention of 1921 has been a bauble and a meaningless myth. The Dominions, to be sure, had also to carry on a long struggle with the "Mother Country" for obtaining the democratic power of shaping their tariff policies in consonance with their own requirements. Where it is not a Mother Country, but a "Step-Mother Country," it is obvious that a grimmer struggle is inevitable. Imperial preference has been a partial, though harmful, solution of the conflict between British and Indian commercial interests. But fundamentally speaking it does not appear to me that there can be any permanent compatibility between a free exercise of our fiscal freedom and the maintenance of Britain's hegemony in the future commercial developments in India. The other,

and more academical, part of the Indian fiscal problem is the determination of a correct policy for the country to adopt. Here, there cannot be any room for doubt that the present system of Discriminating Protection has been disappointingly slow and ineffective. I do not suggest that mere manipulation of import tariffs by itself can work miracles. It is evident that even if we exhaust the entire import schedule, we may not be able to build up an all-sided industrial system for the market thus released is not very large in most cases. Yet, fiscal policy, along with monetary, banking, transport, power and financial policies, fits into a general scheme of economic planning aimed at nation-building. The greatest need of the hour is the galvanisation of the country's human and material resources into activity and the attainment of a higher productive efficiency, which can only come about through the mechanisation both of agriculture and industry, *i.e.*, the application of accumulated knowledge due to scientific progress. Fiscal Policy, correctly conceived and effectively executed, can not only provide the initial impetus for the cumulative spiral of industrial employment, but will for long remain a potent safeguard for the future industries which will arise to cater for the internal market under the aegis of a planned national economy. As an integral part of planning, therefore, the instrument of Fiscal Policy is bound to be valuable; but it would be incorrect to suppose that the State can do no more than levy tariffs and leave industries to work their own way to success. "In India," as Dr. C. R. Reddy put it recently, "the State must undertake the primary responsibility for the economic reconstruction of the country." The *laissez-faire* idea, still reigning supreme at Government headquarters, is wholly incompatible with the vicissitudes of the modern age in which active interventionism is the order of the day.

The War has thrown our economic, as well as political, institutions into the melting-pot, and it may not be too optimistic to hope for the re-formulation of our fiscal policy, when it is over. It is a matter of some satisfaction that the present Commerce Member of the Government of India, Sir A. Ramaswamy Mudaliar, was able to announce not only that the Government intends to "liberalise" the conditions of protection, but that after the War, a comprehensive enquiry

would be "inevitable." At the end of the last War, several industries, which had arisen under the shelter of a closed market, succumbed to the fierce competition which soon followed. This time, "assurances" of security are being given by the Government to those industries which assist in the "war effort," provided they satisfied "certain conditions." There is reason to fear, however, that the "war effort" is the chief or, perhaps, the only consideration governing the decisions and that the permanent needs of large-scale industrialisation are neglected or even opposed by certain elements and interests. While the War is going on, no one can expect any comprehensive measures of reorganisation, but certain paramount considerations have been indicated towards the end of this volume, which, to my mind, appear to be fundamental to the shaping of our future Fiscal Policy, if the Indian industries, old and new, are to survive the aftermath of war.

It remains for me to express my gratitude to those who have helped me in the production of this work. My thanks are due to my cousin, Mr. B. N. Adarkar, Assistant to the Economic Adviser, and to Messrs. K. L. Govil and P. C. Jain, my friends and colleagues at the Allahabad University, for helpful discussion, suggestions and supply of relevant literature. To my publishers, the Kitabistan of Allahabad, and printers, the Allahabad Law Journal Press, I am thankful for the efficient production of this work. Finally, I owe tons of thanks to my wife for assistance in transcribing, in typing and in collecting material, as also for being patient with me during many hours of silence and toil!

6th January, 1941 B. P. ADARKAR

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CHAPTER I

INTRODUCTION

I

Relativity of the Fiscal Doctrine

Fiscal policy controversies have an uncanny knack of creating and maintaining a sharp cleavage of opinions amongst those who participate in them, so that there appears to be much truth in the adage that one is born either a free-trader or a protectionist. On the one hand, those who have drunk deep of the virtue of *laissez-faire* at the fountain of classical economics with all its checks and balances, its artificial schemata of stationary states, its assumptions of *ceteris paribus* and its natural harmonies of mutually helpful self-interest, become willing slaves to its axioms and formulæ, believing that "Free Trade, like honesty still remains the best policy". On the other hand, the protectionists, like fallen angels, have big odds to work against, and their case, though mainly spoilt by under-statement, by mere negativist attacks on the established doctrine and by frequent appeals to an insensible nationalism, has received a better treatment in practice than in theory. The whole controversy is an impenetrable jungle and perhaps, a decisive solution is impossible, for the issues that are raised therein move on different planes and in different dimensions. The reasons for this state of affairs are many and obvious. In the first place, there are differences due to theoretical training: one, who has been brought up to suppose that all that there is worth knowing in economics is in Marshall or Ricardo, can hardly bear the new-fangled cant of a follower of List or of Schmoller; and *vice versa*. In the second place, the difficulty of what may be called "double experimentation" on a given material in the same place, environment and time, which is inherent in most social sciences,

stands in the way of pronouncing an unequivocal opinion as to whether a particular fiscal policy was more or less beneficial than its rival could have been. In the third place, even supposing that "double experimentation" were possible, the further difficulty of estimating the orders of magnitude of various forces and their effects in the medley of international economic events still exists. In the fourth place, the relativity of all economic doctrine compels us, chameleon-like, to take the colour of the environment. It is this relativity that explains the Mercantilism of England prior to the Industrial Revolution, her *laissez-faire* of two centuries thereafter and her hesitating protectionism of today; it is the same relativity that explains to a large extent the protectionist fervour of List and Carey, citizens of two typical countries with unlimited but then unrealised potentialities of industrialisation. Finally, the inherently difficult nature of the subject involving as it does the keeping "at the back of our heads", as Keynes would call it, "the necessary reserves and qualifications and the adjustments",[1] which we have to make after a formal manipulation of our thought-apparatus, and, moreover, necessitating an ambidexterous handling of two or three of the most difficult techniques of economic theory (such as the theory of prices, the theory of foreign exchanges and the theory of real economics and barter)—this has undoubtedly been a lion in the path of many. Fools are apt to rush in, therefore, where angels fear to tread; but unfortunately, in economic affairs, one has to run the gauntlet of criticism and, whether fool-wise or angel-wise, knock at the door of the temple of the "economic" Muse, for the question of the hour brooks no delay.

Indian economic thought[2] has been, in this connection, largely influenced by Cambridge and London (both citadels of Free Trade) in recent years, while the lay public has been mostly guided by cheap appeals to national sentiment. The Infant Industries argument, which is the corner-stone of the doctrine of Discriminating Protection, has been generally

[1] *General Theory of Employment, Interest and Money*, p. 297.
[2] Barring a few notable exceptions.

admitted by free-traders and protectionists alike as invulnerable and it is this that has so far received the blessings of the officialdom and of respectable economists in this country. The Fiscal Commission of 1921-22 also, after reviewing the industrial position of India in a manner which would suggest a protectionist policy of a deeper shade, finally plumped for Discriminating Protection. The respectability complex of this doctrine was such that it had satisfied both prigs and slovens alike till recently, but it is the habit of the human mind that it is seldom contented with the *status quo*, whether it be of the one or the other kind and would "pine for what is not". Discriminating Protection has come in for criticism both on the ground that it is not sufficiently discriminating and on the ground that it is too much so. The true criterion of policy, however, does not necessarily lie between these two opposite views; it may well lie outside both, at any rate, so far as the Indian economy is concerned. But one thing is certain and it is that the anti-protectionist feeling in the country is steadily gaining ground, both because it is being assiduously nursed by official support and because the exigencies of the times would seem to assist it in some ways.[3] Consequently, there pervades today in our country a free-trade-cum-preferential atmosphere with which economic opinion as well as political action has to reckon in the formulation of a policy. Reference may be made to some of the well-known facts of recent occurrence, such as the winding up of the Tariff Board establishment for reappointment on an *ad hoc* basis (contrary to the recommendation of the Fiscal Commission which had required a permanent body for "*post-mortem*" investigation), the refusal to consider fresh applications, the turning down of the Tariff Board's proposal of protection to the glass industry, the irregular procedure followed by the Government in connection with the Ottawa Agreement almost since its inception, the new appearance of

[3] Among the earlier writers, K. T. Shah, Vakil, Kale, Coyaji and others have in their well-known monographs generally supported Protection. Recently, H. L. Dey (*Indian Tariff Problem*), and B. N. Adarkar (*Indian Tariff Policy*), among others, have cast doubts on the success of the policy pursued.

preference under the garb of Empire Free Trade and bilateralism and the general mutilation of Discriminating Protection. I am not one of those who think that fiscal policy is a matter of any political import and that, therefore, there has to be a compromise between what economic theory would dictate in regard to a particular situation and what the politicians would desire; on the contrary, it is my firm belief that the fiscal problem is wholly economic and must be tackled in none but a scientific spirit and that this must be done without fear of or favour to any section or group that can be isolated from the country as a whole. Indian economists shall be abdicating their duty, if they allow their economic dicta to be quoted and freely bandied about in a manner that would be harmful to the immediate or ultimate interests of the country, for strangely perhaps, they are quoted more for their admissions than for their advice by the Government of the day.

II

Fiscal Theory Re-stated

The general argument of Free Trade rests upon the classical theory of international values, comprising within itself the notions of comparative costs and reciprocal demand. We have, however, three main strands of thought, all in the direction of renovation of the classical doctrine which, admittedly, is in the melting-pot. (*i*) In the first place, the valuation in international trade is on all fours with the pricing mechanism (mutual interdependence of prices) and it is not merely reciprocal demand but total demand (including both internal and foreign demands) which determines the "values". (*ii*) Secondly, in a world that is entangled in a maze of tariffs and trade restrictions, the ordinary postulates of international trade theory do not apply and what *is* is not the result of a free interplay of forces such as what the classical theory would lead us to suppose but of the mingled action of distorting economic policies. (*iii*) And thirdly, though a capitalist monetary economy is the determining condition of modern international trade, this cannot necessarily be the case at all times; where, as in Russia, comparative costs (determined

by capitalist motive) are disregarded, welfare is not lessened in consequence.[4] Such is the trend of modern thought in these matters.

The first thing that emerges from a reconsideration of the theory of fiscal policy, then, is that the theory is based very much on what tends to be rather than what should be and this is a drawback, for what tends to be is not necessarily for our good. Thus we might well admit, as a first approximation, that international trade tends to redistribute the world's activity on the lines of division of labour, but we hardly ever disabuse our minds of the illusion that international division of labour is at all times for the best, an illusion which finds its expression in apophthegms such as that "international trade is doubly blessed, for it blesseth both him who selleth as well as him who buyeth". This assertion might seem rather revolutionary to those who have comfortably lulled themselves into acquiescence in the classical harmony of division of labour.[5] But it is this mainstay of the free-trade position that needs to be carefully scrutinised. In the words of Schmoller, "The free-traders forget that unrestricted Free Trade between all countries brings about increasing sales and rising prosperity for the countries favoured by Nature and historic development but, in the case of those neglected by Nature it may easily rob them of their industries, or even in certain circumstances of a portion of

[4] See the following papers: Kale, "*Theory of International Trade*," Gyan Chand, "*International Trade and Recent Developments*," also my own contribution and those of B. K. Madan and S. R. Bose, on the same subject in the *Indian Journal of Economics*, January 1935.

[5] Even Keynes concedes that "the advantages of the international division of labour are real and substantial" (*General Theory*, etc., p. 388). But he does not tell us whether these advantages are cosmopolitan or national, or, whether they are present under all circumstances alike or under certain conditions only, or whether they are compatible with the ideal of full employment postulated by him. Nor is it clear whether the advantages are to be weighed in terms of the values of a capitalist economy with its artificial conditioning factors of unequal distribution of wealth, etc. Moreover, his final conclusion, that "It is the policy of an autonomous rate of interest, unimpeded by international preoccupations, and of a national investment programme directed to an optimum

their population. No people with a national consciousness can permit that without defending itself. The consolation that Free Trade is effecting a cheaper and better production somewhere else in the world, cannot satisfy the countries thus injured".[6] The trouble with free-trade theorists, as with monetary deflationists, is that they concentrate on the virtues of consumption to the exclusion of the agencies of production; and yet, it is perhaps a truism to say that a country which does not produce wealth cannot consume it either. Thus, a country which is in a backward condition and which, prior to trade, was specialising in particular industries as a staple source of wealth, finds itself suddenly confronted by the superior technical skill of another country, which by its low costs virtually kills its industries and thus destroys its main source of wealth. Such a country then has to fall back on other necessarily less advantageous avenues of production with a resultant diminution in wealth—a diminution which cannot always be made up for by the fact of the cheapness of foreign goods: for, it is not sufficient that foreign goods are cheap; the country must have exchangeable wealth wherewith to buy them and if production suffers, consumption is bound to diminish.[7]

There is yet another very important objection that can be raised against the classical position. The general theory of

level of domestic employment, which is twice blessed in the sense that it helps ourselves and our neighbours at the same time", and its corollary that "it is the simultaneous pursuit of these policies by all countries together which is capable of restoring economic health and strength internationally, whether we measure it by the level of domestic employment or by the volume of international trade", (p. 349) are not quite in consonance with the idea of international division of labour.

[6] *Grundriss der Allgem. Volkswirtschaftslehre*, II, p. 607. Cf. also Grunzel, *Economic Protectionism*, p. 8 *et passim*, and Edgeworth, *Papers relating to Political Economy*, Vol. II, p. 7, where he admits that the distinction between cosmopolitan and national interests is not borne in mind by the English writers. Mr. Gladstone once asked "why, if protection is a good thing, it should not be adopted by the United States in their internal trade!"

[7] The case of India since the middle of the 18th century would be a good case in point here.

values derives itself from the fact that there is a pull on production and valuation from those sections of the people who wield the money power and this pull is necessarily conditioned by the present distribution of wealth and income. It is for this reason that maximum output is not a concept that is coterminus with maximum economic welfare. The drama of international trade is just another aspect of this general valuation of economic goods and the consequent division of labour (which might result from the unimpeded action of economic forces under the present capitalist system and which is, therefore, regarded as a worthy ideal by most people) is just a reflex of a distorted system of production, incapable of maximising welfare. On what grounds, then, can we say (in a general way) that international division of labour will maximise economic welfare either internationally or nationally? I do not know if extreme nationalism would maximise it either: when wealth is so disparately diffused as between man and man, and nation and nation, there may be an infinite number of probabilities within the range of probabilities presented by the theoretical extremes. The conclusion, therefore, is that, under a capitalist system of values, there is no conclusive proof that international division of labour (as a general proposition) could maximise economic welfare. On the other hand, in a socialist state, where presumably there may be a more natural system of valuation based on free and equal wealth, the true benefit of division of labour might become fully available; but it may be hard to find a socialist state wherein there is no interference with the processes of costings and valuations of an equally arbitrary kind. Thus, the fiscal policy conundrum does not lend itself to any Gordian-knot methods and any doctrinaire adherence to free trade or protection is full of pitfalls.[8]

Most free-trade theories start from the assumption of a

[8] Cf. Wicksell, *Finanztheoretische Untersuchungen*, pp. 63 ff., where he admits that the free-trade doctrine generally assumes that "every member of the community is provided with the various productive powers (land, capital, etc.) exactly in proportion to his own needs,...... in other words......an equal distribution of wealth".

full employment of national resources and then proceed to discuss alternative ways of distributing those resources in production. As a first approximation it may even be granted, for argument's sake, that, in conditions of full employment, free trade is capable of providing the best among alternative uses; but what does this conclusion come to when the assumption of full employment does not materialise. Whether or not protectionism is capable of securing full employment is a separate issue which will be discussed presently; here we are looking at full employment as an assumption rather than as an ideal. It is quite possible that the resources which are employed are enjoying an optimum distribution among industries on the "division of labour" plan, but what about the unemployed resources? And, free trade is quite compatible, nay, can often be the cause of serious unemployment in a backward and undeveloped country (like India), with a growing pressure on agricultural land of a population which cannot find any outlets into alternative channels of production. What consolation is there in being told, in such circumstances, that consumers would be benefiting by cheaper imports? There is clearly here a clash of interests between producers and consumers, which cannot be got over by saying that all production is ultimately for consumption or that producers and consumers are the same persons. Producers here, in an especial sense, are the owners of the employable factors of production including wage-earners; if their interests are harmed, *i.e.*, if unemployment prevails, a large body of the unemployed persons and owners of unemployed resources will have to restrict their consumption while only those who derive fixed incomes and are actually employed will be better off. Still it is doubtful if total consumption or total economic welfare will be greater.[9] It is, therefore, a correct approach of Keynes (in his *General Theory*, Chapter 23) to stress the question of employment in this connection as this, indeed, is the fundamental issue between free trade and protection. The possibility that a restriction of

[9] Cf. Schuller, *Schutzzoll und Freihandel*, for a general reasoning somewhat along these lines.

imports by establishing a favourable balance of trade may cause an inflow of gold and thus prevent unemployment by maintaining the flow of investment, or even increase employment through an augmentation of that flow, is undoubtedly a valuable salvage.[10]

It is not intended to countenance any insensate programme of protectionism which would grow melons in Sahara and ostriches in Piccadilly; my criticism is directed only against what Keynes[11] calls the "inadequacy of the theoretical foundations of the *laissez-faire* doctrine" on which we have all been brought up, and against the self-complacency and

[10] B. N. Adarkar, maintains, (*loc. cit.*) *inter alia*, that (*i*) the success of the Keynesian policy of stimulating employment depends on our ability to maintain a favourable balance of trade, (*ii*) that the policy might defeat itself if it led to a rise in domestic costs or an increase in the volume of foreign lending in excess of the foreign balance, (*iii*) that the theory does not apply with the same force to a country on an independent standard. The first portion of this view, has been dealt with later on in the text on the fallacy that "exports pay for imports". As regards the second part, the only relevant point is whether protection would bring about an equal rise of prices and costs, and, secondly, whether it would stimulate foreign lending in excess of foreign balance. There is no proof that either would happen: costs would indeed rise internally, but protection merely would affect the "international" industries and their pull on the market for factors of production being less than that of internal industries, there is no reason to suppose that domestic costs would rise in the same proportion as the prices of protected goods. On the other hand, there is equally no reason to suppose that protection would by itself stimulate foreign lending in excess of foreign balance; what will happen generally is that a part of the foreign balance will be accepted by foreigners as loan, part being paid in gold or silver. As regards the third point that the theory does not apply with the same force to a country on an independent standard, there is, of course, the feasibility of stimulation of internal investment and of the propensity to consume within the independent monetary system, but if no action is taken in that direction, reduction of imports might also be helpful in increasing home investment, or foreign investment, or both, through the greater marketing opportunities thus created internally. At any rate, India is not a case of an independent standard and the part played by gold elsewhere is played here by sterling, so that Keynes's remedies apply with as much force to India as to a gold country.

[11] *Op. cit.*, p. 339.

respectability of that section of the faculty of economists, who "have been guilty of presumptuous error in treating as a puerile obsession what for centuries has been a prime object of practical statecraft". The general case for Free Trade would thus appear to rest on far less secure foundations than a mere preoccupation with the notions of "natural advantage" (which, by the way, is somewhat of a hen-and-egg puzzle), the harmonies of self-interest, international division of labour and comparative costs would lead us to believe. When we pass from the general to the particular case, we have to admit so many limitations to the classical doctrine that the practical aspects of a free-trade policy seem even less attractive. In the words of Edgeworth, "There are two degrees of abstraction which may usefully be employed in general reasoning about International Trade. We may contemplate each nation as a whole, making abstraction of the non-competing groups within it, or we may take account of those internal divisions. It is thus that the astronomer may sometimes calculate the motion of a planet about its axis and the orbits of its satellites, and in other reasonings, with reference to the action of a distant body, may neglect those internal movements and treat the Jovian or the Saturnian system as if it were a weighty particle. In economic science the more abstract methods have been hitherto the more fruitful".[12] General free-trade theory is, thus, merely a first approximation, true perhaps so far as it goes, but in the secondary and tertiary approximations, its application seems to falter. In the first place, exceptions to the general free-trade position have been accepted by leading free-traders, like Marshall and others. For example, Friedrich List's argument[13] in favour of (1) "wealth-producing capacity" and (2) infant industries and such other cases has already been incorporated by the free-traders into their doctrine. This is common knowledge. What is, however, generally not recognised is *that the argument in favour of the power of producing wealth and that in favour of infant industries are not the same, but different in their scope and application.* The

[12] *Economic Journal*, 1901, p. 585.
[13] *National System*, p. 300 ff.

former is *a general and wider principle* which is, as Pigou admits, "particularly strong as regards an agricultural country wishful to develop manufactures", for in such a one the cumulative effects of industrialisation are more far-reaching than in an old-established manufacturing country.[14] The latter is a piecemeal affair necessitating various checks and balances and a strait-jacket of conflicting formulæ.

There is, however, another deep-rooted fallacy lurking in the minds of many which will have first to be exorcised if any progress is to be expected in our discussions: that fallacy is the time-honoured theory that "Exports pay for imports", and that, therefore, any reduction of imports will have a *boomerang* effect on exports reducing them almost to the same extent, so that the advantages of protection, as regards the balance of trade or employment or internal development or an increased national dividend, would be merely illusory. Any advantage, in brief, will be balanced by a corresponding disadvantage and nothing would come out of nothing. In other words, the whole business will be something like a Chinese mandarin trying to pick himself up with his own pigtail! Examples of this fallacy are almost limitless, but perhaps a topical one can be given in illustration. It is said that if India buys less of Java sugar, Java will buy less of Indian exports and to substantiate this proposition actual figures are quoted to show that as from the date of the Sugar Protection Act, *viz.*, 1931, Indian exports to Java began to fall rapidly. Now, it is one of the tragedies of the statistical science that when it teaches us to put two and two together it does not give us the faculty of seeing that we do not put two and three together to make four. This, then, is a clear statistical fallacy. In the first place, modern international trade, unless it is hemmed in with pacts of bilateralism or actuated by a purposive malice aforethought, does not take cognisance of bipartite trade in this fashion. There is no proof that Java either entered into a bilateral pact with India or intentionally reduced its purchases from us. But there is at least one very good reason why our exports to Java fell

[14] *A Study in Public Finance*, p. 221.

both absolutely and proportionately as from that year 1931, and that is the reason of the economic background conditioned by the slump and by the fact that practically at the same time, Java, the Dutch East Indies (as a whole) and also Holland were isolated from us by a progressively deflationary guilder which practically impoverished the whole area and necessitated the erection of tariff walls, quotas and exchange restriction schemes.[15]

However, to turn to the analysis of the matter, in the first instance, it is multiangular rather than bilateral trade that is relevant here: if import duties have shut out Java products, the repercussions of this, if any, will be felt not only in trade with Java but with the rest of the world, through multiangular channels, *i.e.*, wherever Java has any trade connections. Thus, the relevant balancing is between India and the rest of the world. Secondly, in the equation of the balance of payments of India and Java, as of every other country, there are items other than visible goods (which are the object of fiscal policy): they are invisible goods and services, treasure and securities. The transactions in each of these, more or less, constitute a different series without any direct relation or interdependence between them *inter se*. Each series, again, is in different hands and is based on a different elasticity of demand which is governed by the relative prices of the goods and services in question at home and abroad, and, in the case of securities, on the relative rates of interest at home and abroad.[16] Through the mechanism of the foreign exchange market, each of these series, again, is credited or debited to the account of each country and it is one of the elementary laws of that mechanism that the various series mingle in such fashion that from time to time the balance-sheet of each nation exactly balances. Thus if imports into India are partially shut out, there are different possibilities in which the deficiency thus caused on the debit side may be corrected: thus, gold or

[15] Cf. similar statistical balloons floated by some writers in connection with the Ottawa Agreement, to show simultaneously (*a*) the gain and (*b*) the loss caused by it. See Chapter XVIII below.

[16] Keynes, *Treatise*, Vol. I, p. 163, and pp. 326 ff.

securities may flow into the country, or even perhaps the invisible items may step into the balance. It is not necessary to deny that instead of the debit side being thus corrected, the credit side itself might suffer a reduction. But the changes, whatever they are, will depend upon two things mainly: (1) the relative elasticities of demand for our exports in foreign countries and (2) the mobility of the various items in the balance of payments. The readiness with which, apart from retaliatory tariffs (which cannot be regarded as a simultaneous reaction throughout the world against, say, India), foreigners can give up buying our exports is grossly exaggerated by the critics of protectionism and that such critics have neglected to consider the facts that both gold and capital are more mobile and that, therefore, they will move first before reduction of exports is possible.[17] The argument of the critics of this theory is that foreigners may not be (*a*) able and (*b*) willing to borrow or send out gold to fill in the gap of their adverse balances of trade. First, then, as to willingness: It is not correct, in the first place, to suppose that the people who are engaged in the various series of transactions pertaining to exports, imports, borrowing and lending and dealings in treasure are identical; thus the unwillingness of the exporters cannot affect the psychology of the importers, etc. Reduced imports work through the exchange rates upon the terms of lending in the countries concerned, in so far as the monetary authorities in the rest of the world have to raise their bank rates, *i.e.*, to signify willingness to borrow, when

[17] This whole controversy was recently staged in England. Cf. Keynes, *Treatise*, Vol. I, pp. 326 ff., and Vol. II, pp. 188-89, also the *Addendum* to the *Report* of the Macmillan Committee; Beveridge and others, *Tariffs, the Case Examined*, pp. 56 ff., and 244 ff., letters of Mercator and Keynes to the *Times*, on the 21st and 31st March, 1931; Keynes' and Robbins' articles in the *New Statesman and Nation* in March and April, 1931. Keynes has returned to the attack in his *General Theory*. For reasons of space, I cannot go into every aspect of this question, but undoubtedly the possibility of a reduction of imports helping our trade balance to be on the right side of things (in the present situation of serious disequilibrium) and reducing unemployment, cannot be lightly brushed aside. See *infra*.

their balances of trade become adverse, and gold begins to flow out. Even in the case of independent standards, if the exchanges are allowed to find their own level, adverse balances of trade through causing exchanges to fall stimulate both gold and securities exports (on private accounts) these being more mobile than goods exports, and especially repayment of foreign credits begins to reverse the flow of foreign investment (as, *e.g.*, happened in the case of England after 1931). There is no question of willingness, therefore, for the action of economic forces is inexorable, in this case. As to ability, some writers have supposed that Java or Argentina will have to borrow from the protectionist country as well as from other countries. Although, however, there can be dealings of this character between the foreign countries *inter se*, it would be ultimately the country, levying import duties, and that alone, which will be called upon to lend. The rest of the world will remain indebted to it only to the extent of its favourable balance of trade (minus gold imports, if any); and this extent, be it remembered, will be inconsiderable (nay, almost insignificant) as compared to the total transactions of the world in these various series; so that the fears of the critics that there would almost be a havoc in the rest of the world is unfounded. The truth of the matter is that the restriction of imports by a protectionist country will be generally spread over a number of countries and its incidence will fall lightly on all and heavily on none. The inability plea, therefore, falls to the ground, because the protectionist country itself will be in a position to lend (*i.e.*, in the case of a creditor country, expand its net foreign investments, and in that of a debtor country, reduce its foreign debts); and secondly, because the foreign countries taken as a whole will be in a position to borrow marginally from the former (to the extent of the favourable balance of the protectionist country) without feeling any grievous burden. Those who complain that foreigners might be impoverished forget that the adverse balance of trade of our country is already favourable to the rest of the world, and that it is only this disadvantage that is to be corrected. And even if it is "favourable" to us, in the game of international trade, such give-and-take is a daily affair; but, for the minor consequences of this no nation can willingly

limit its own action in a spirit of suicidal charity, and agree to involve itself in a vicious spiral of indebtedness and unemployment.

III

Indian Protection—A Bird's-eye View

Let us now turn to the question of India's fiscal policy, which has been already anticipated in the foregoing discussion at several points. Firstly, then, it is beyond doubt true that India fulfils all the requirements of what Pigou calls a backward "agricultural country wishful to develop manufactures". It is by now a commonplace in economics how the various important elements of productive power, such as industrial technique, organised systems of transport, banking and communications, trade connections and goodwill, an efficient labour-supply and a group of enterprising and far-seeing captains of industry, arise and are augmented in a cumulative manner under the ægis of a well-planned system of protection. The prosperity of Germany, the United States and several continental countries has been attributed even by leading free-trade authorities like Taussig and others to protectionist policies. Latest cases are Japan, Australia, Canada and South Africa. Those who deny the efficacy of protectionism would do well to peruse the industrial histories of these nations. The Indian Fiscal Commission has gone through this question with great power and far-seeing vision and decided that, for the sake of a rapid industrialisation, the country should take a step forward in the direction of protection. It was unfortunate that they recommended merely Discriminating Protection, *i. e.*, for infant industries, which, even according to Pigou and free-trade authorities, is more appropriate to develop industrial communities possessing such "infants", than to agricultural countries with potentialities of an all-round industrial development. There is no doubt, at any rate at this date, that Discriminating Protection was merely a compromise formula devised by the majority to soothe external interests and the adjective "discriminating" merely gave a semblance of respectability and

level-headedness to the formula. And yet it must be remembered that the actual details of the formula restricted its scope to a far greater extent than necessary, while the administrative machinery set up for its execution by the Government came to be such that hurdles after hurdles were placed in the way of the applicant industries. Even a general system of protection can be "discriminating" without excluding all but infant industries from its scope. Apart from established infant industries, new or "embryo" industries would also have to be considered for selective protection, as was done in other protectionist countries, while a basic level of protection would have to be maintained to create that atmosphere of confidence and stability which is essential to a programme of industrial development in a backward country possessing the necessary potentialities. At present the Tariff Board has to work within the strait-jacket of the triple formula and exercise almost a valetudinarian caution in the prescription of its fiscal recipes. I do not think that this type of nibbling would help in the tremendous problem of industrialising a sub-continent like India.

The growth of population during recent years has been alarmingly rapid and the pressure on land is increasing day by day. Not only this but the fertility of the soil is rapidly dwindling, so that the fertility-acreage quota per head of population has also been, in recent years, falling very fast. The optimists have contented themselves with figures showing that *per capita* real production has increased. Such and other people, who (*e.g.*) look at superficial things like budget surpluses of Government, its credit abroad, etc., without pausing to think how these have been brought about, are living in a dreamland of hallucinating prosperity. But actually the situation in the country, for those who have eyes to see, is daily getting from bad to worse; unemployment is rapidly increasing, while poverty, destitution and indebtedness are stalking through the land. Throughout this period, the silent sufferer is the agriculturist whose responsibilities are growing out of all proportions to his capacities to bear the burden of feeding the country.

The following table shows the gravity of the situation:—

TABLE I

	1911	1921	1931	1936	1938	1941
Total Population in millions	315	319	352	377*	386*	400*
Working Population in millions	154	146	149	..	..	..
Employed in industries	15	16	17	..	..	..

*Estimated.

The "industrial" employment of the Census figures has to be discounted in so far as nearly 7 millions are engaged in the plantation industries, while the large-scale industrial establishments provide employment at present only for between 1.5 to 2 millions of workers. From 1921 to 1941, *i.e.*, within a period of twenty years as the figures above show the population will have grown by nearly 80 millions; if the increase of employable persons is taken to be about 20 millions, it is hardly probable that more than 2 millions will have been absorbed in the sugar, match-making, and cement industries apart from the old-established industries during these years. Thus it will be found that there is a great and growing maladjustment of the labour-supply of the country—a maladjustment which cannot be corrected until suitable industrial avenues are provided. What have our friends, the critics of protection, got to say about this? Here are the samples: "Even on the most extravagant and optimistic (*sic*) supposition that there could be a doubling of industrial production during the next ten years, the additional industrial employment created thereby would absorb only 1.6 per cent of the agricultural workers. It is, therefore, clear that it would be a vain hope that a policy of industrial protection would effect any appreciable improvement......".[18] "Statistics show that even if these (!) industries develop to the farthest limit of expansion, they will not be able to absorb more than an insignificant proportion of our total population. Industrialisation by protection, is therefore, a chime-

[18] Dey, *op. cit.*, p. 30.

rical proposition".[19] The United States and Germany had according to another writer, "a much more equitable distribution of the population between agriculture and industry than obtains in India", and as "these proportions are relevant (?) in balancing the gain against the loss" of protection, "the actual volume of the sacrifice that India will have to make will be infinitely greater than that of these countries".[20]

It is fine logic, indeed, to base conclusions such as these, regarding the failure of protection on figures of a tardy industrial development, when the obvious conclusion should have been that the tardy development of industries itself was due to the superficial aid given by the half-hearted, grudging concessions of a so-called "discriminating" protection! And in any case, to base conclusions as to possibilities of employment on the actualities of today is not only wrong logic but bad economics. The panaceas proposed by the critics themselves are rationalisation, internal planning, social and moral uplift, education, rural reconstruction, development of other departments of economic life such as agriculture, mining, transport, banking, etc. All this is well said, but the questions are (*i*) how rationalisation would hasten industrial development in this country, seeing that it can affect only the existing industries, (*ii*) secondly, whether such random shots at the "bull's eye" of progress as social uplift, etc., would solve the crucial problem of population pressure and a low standard of life, (there is no objection, however, against these innocent, philanthropic items of social programme *per se*), (*iii*) thirdly, whether industrialisation can necessarily only take place at the expense of agriculture, (*iv*) fourthly, whether mining, transport and banking can develop at all without a rapid programme of industrialisation. There is no case on record of an agricultural country having successfully industrialised itself and raised its standards by merely tinkering with haphazard methods of social welfare which are clearly of a long-period character: these, indeed, have

[19] B. N. Adarkar, *op. cit.*, pp. 62-63.

[20] Pillai, *Economic Conditions in India*, p. 324, supported also by Dr. Gilbert Slater in the Introductory Note.

their place in the economic policy of a country, but they are more consumptional than productional in their aspect and they are slow business at best.

As regards the general question whether India should be an *Agrarstaat* or *Industriestaat*, at this distance of time there can hardly be any dispute that what we should aim at is a diversification of our economic life. This has been brought home to us particularly by the last Depression which caused a far greater proportionate fall in agricultural prices than in industrial prices, making our real ratio of trade seriously adverse. Owing to the slight recovery that is taking place in the world markets, the two sets of prices (agricultural and industrial) are again converging towards a new parity thus slightly improving our real ratio, but this much can be taken for granted that, owing to the tractor and the steam-engine, agriculture has been glutted and the real ratio might well worsen again. Moreover, a primary occupation like agriculture can never hold out any hope of a high standard of life for our growing millions with a diminishing fertility-acreage ratio; primary occupations are always associated with a low standard of life. Agriculture means backwardness and backwardness, again, is a cumulative process. Moreover, scientific progress is closely associated with industries and both these again with political supremacy; if "defence is more important than opulence", modernisation on industrial lines is essential; it is essential if we are to have a place in the sun, especially in view of the new military responsibilities which are bound to devolve upon India in the near future. Moreover, there is no doubt whatever that industrialisation would mobilise our shy capital which has been locked up for centuries in the form of gold for want of a better investment, though the claim that industrialisation itself would cause an immediate growth in our capital resources may be regarded as erring on the side of optimism. It is hopeless to expect that this gold can be suitably invested in land, or in social uplift.

The Tariff Board has been handicapped in its operation in several ways: its constitution, its functions, its personnel have left much to be desired; its deliberations have been hindered by the strict implications of the triple formula; its

recommendations have not infrequently been rejected; its reports have been on occasions shelved indefinitely; the Commerce Department has nipped many an industry in the bud by putting obstacles in the way of applicant industries and refusing to place their cases before the Board, thus prejudging and prejudicially judging such issues as should have been the proper subjects for the Board itself to advise upon. In spite of all these impediments, the Tariff Board has, on the whole, discharged its responsibilities with vision, sagacity and impartiality. If there is no humming prosperity in the country with thriving industries everywhere, the fault at any rate is not theirs. What little protection has been available after the combing process of the present machinery has more than justified itself. It may at once be admitted that the system as it has developed has contracted some defects: but what system is without defects? Moreover, in this case, they are undoubtedly the defects of the merits of Protection. Critics have exaggerated the defects and shut their eyes to the progress achieved by way of direct and indirect employment and the growth of the national income as a whole, thus willingly losing their perspective.

The first complaint of the critics is that discriminating protection has led to regressive taxation. Now it would be inaccurate to suggest that the system of Indian public finance leaves nothing to be desired; on the contrary, a majority of Indian economists have rightly condemned it both for its inequities of burdens and its wastefulness of expenditures. There are, however, one or two points which we have to bear in mind in this connection. In the first place, it must be remembered that the inequality of distribution in this country is not so great as in the West, so that a scheme of taxes (in which, say, the customs duties are 53 per cent of the total tax burden) is bound to be less regressive in its effects in India than in the Western countries. Secondly, without prejudice to a general conclusion that reform can make the system somewhat less regressive than it actually is, it must be pointed out that as the majority of our countrymen are poor, to run any government whatever on modern lines, the tax burden will have to fall mostly upon the poor. Thirdly, a system of finance may be regressive as to taxation,

but if it is progressive as to expenditure, the evil effects of regression will be sufficiently compensated for in the other direction. This is the first relativity aspect. Fourthly, regression or progression is a relative idea; if owing to customs duties, the tax system has become regressive, there are two ways in which this can be corrected: either to reduce customs taxation, thus relieving the poor, or to raise more revenue from taxes which fall specifically upon the rich. If protective duties can be justified on broader grounds, such as that the national income would increase,[21] then clearly the former course is not the wiser, for if national income as a whole grows, the later distributional aspects can be taken care of by the Government. In brief, let the "heap" (*pace* Stamp) of national resources first be greater; its sharing can well be our next preoccupation. On the other hand any student of Indian public finance can tell us that there is a vast scope for taxation of the upper strata of incomes, so as to make the bias of the tax system more progressive or less regressive than it is to-day. Reform of income taxation, taxation of the incomes from land, taxation of inheritance, succession and legacies, taxation of property (both movable and immovable) of joint and separate families, and of transfer of property,—these and several other sources will have to be tapped. Though the difficulties, principally legal and administrative, are great here, our authorities on taxation have generally agreed that the country is insufficiently taxed in these directions as well as on the whole. We shall be reaching the optimum size of public finance in India by increasing our public activities rather than by curtailing them: if this is so, there is no case for reducing customs duties but only for exploring the other avenues of taxing the rich. Finally, and this is a theoretical point, it is not correct to suppose that regression reduces economic welfare under all circumstances whatever. It might do so, if the actual absolute taxation paid in by the poor individual is greater in amount than what the rich individual pays; for the rest, the theory of public finance does not

[21] And it is this proposition that the critics will have to contest, rather than give a dog a bad name and hang it.

make any deliverance on the question. Although it may well be granted that a greater element of progression will make the maximum number of us happier than we are, there is no proof that in India the poor actually pay in taxation less than the rich or that the rich benefit actually by expenditure more than the poor; and hence the conclusion is that there still takes place a transference of wealth from the rich to the poor in this country which may be insufficient but which is certainly not negative in character.

The next objection of the critics is that protective duties make the rich richer and the poor poorer, thus aggravating the existing inequality of distribution. Their argument is that the duties cause the prices of the goods protected to rise thus injuring the consumers who are mostly poor, while they benefit "the favoured groups of entrepreneurs, investors, and wage-earners" connected with the industries concerned. Now it must be admitted that it is one of the incidents of industrialisation that it creates a rich entrepreneur class: this is not peculiar to protection, it is inherent in industrialisation itself. On the other hand, the "burden of the consumer" question is not such a simple issue. In the first place, it is not clear that the poorer sections of the society do actually bear a large part of the burden of protection in India; my personal view is that it falls to a greater extent on the *middle* classes who are the principal consumers of imported and protected goods. Apart from this, however, in order to assess the actual injury caused, we have to take into consideration not only the rise in prices (which may indeed be temporary, the period depending upon the measure of protection and the development of the industry), but addition to the incomes of the poor caused by (*i*) increased primary employment in the industry itself and (*ii*) the reactions of this on secondary employment in several other industries and agriculture,[22] which relieve the pressure on the soil. To the extent, (or

[22] The problem is essentially of the same nature as that of the "Multipliers" of Messrs Keynes and Kahn. See Keynes, *General Theory*, Chapter 10, etc. Also P. J. Thomas, "A Plan for Economic Recovery", in the Conference Number of the *Indian Journal of Economics*, April, 1935.

even more than that), that prices rise as a whole, total consumer purchasing-power increases, so that the harm done to total consumption, which is definitely greater than before, is illusory. What is more, by employing the unemployed and thus bringing about some favourable redistribution, the sum of human happiness is actually increased. Any contrary conclusion is due to the common confusion between the term "producers" and "entrepreneurs", in truth by producers we mean here all those, workers and others, who are engaged in industries.

The next contention of the critics is that when protection begins to become effective, the revenue of the Government begins to fall off.[23] Of all the arguments against discriminating protection, this perhaps is the lamest and most slipshod. I do not produce statistics in this connection to disprove what is indeed a fact that during the last few years the revenue from protective duties has fallen. It is, of course, due very largely to a general fall of imports caused by the Depression and the reduced purchasing-power of the people. But the general proposition, that in so far as protection is effective revenue must fall off, must indeed be granted. But the question that arises is: Why should the Government look for revenue in these shaky quarters? And even if they do, why should they not be prepared to adjust their taxation system to the changing fabric of revenue? And is a revenue loss to be regarded as a national loss, in strict theory? At the most, a revenue loss might cause administrative inconvenience, necessitating the imposition of new taxation or the scaling up of the old. Theoretically, it is not even improbable that reduction of duties on some of the "adult" protected industries would be augmenting the revenue. This can be tried if necessary, but there is no ground whatever for the claim that "India's tariff policy must *primarily* be directed by revenue considerations".[24] On the other hand, we must admit (*i*) that in so far as protection leads to establishment of new industries,

[23] B. N. Adarkar, *op. cit.*, pp. 65-67 and 74-87; Vera Anstey, *Economic Development of India*, p. 389.

[24] Vera Anstey, *loc. cit.* Italics mine.

it becomes possible to gather more revenue by way of income-tax and excise—both of which can substantially make up for the so-called "loss," and *(ii)* that if the national dividend as a whole increases, as it must in a country in which large masses of human and material resources are lying unemployed, these superficial considerations have no bearing on the questions of fiscal policy.

The next important point of the critics of the Indian protectionism is that it has created and will further create "vested interests" in the country.[25] Now, vested interests and trusts and cartels and such-like are incidents of industrial progress and of changes in organisation. The American, English and German attitudes towards trustification and cartellisation have not been all in the same direction;[26] thus, those who inveigh against these things will have first to get their notions fully clarified as to the end towards which they would wish industrial organisation in this country to progress. They might usefully remember that we can in these, as in many other matters, draw upon the experience of western nations and shape our policies.[27] Vested interests are an excrescence of industrialisation under the capitalist system; you cannot abolish them by abolishing protection; and in so far as protection might have helped industrialisation anywhere, they are the defect of the merit of protection. It is impossible for us to have industries without vested interests; the more important practical issue is, whether we have any means at our disposal to neutralise the harmful influence exercised by them. In modern democracies as well as autocracies, balance is always provided for the overmastering influence of vested interests: in India, as it appears to me, we have a number of mutually neutralising elements which either have been or

[25] References to individual writers are unnecessary; free-trade literature is replete with discussions on this point; Indian writers have merely dotted the i's and crossed the t's of Taussig and others.

[26] Cf. H. Levy, *The New Industrial System;* Marquand, *Dynamics of Combination;* L. Urwick, *Rationalisation;* Meakin, *The New Industrial Revolution;* and other works by Florence, Robinson, and others.

[27] The U. S. A. the classical home of vested interests, has also been the land of the most relentless Anti-Trust Laws.

will be quite adequate to ensure against the domination of Big Business. In the first place, owing to the broad-bottomed franchise of the new Constitution we shall have the representatives of the non-industrialist, consumer population in the legislatures in large numbers; secondly, foreign interests will be well represented by the "special responsibilities" of the Viceroy and his various "discretions"; thirdly, the general surveillance of a foreign Government interested more in agriculture than in industry is also an effective safeguard in this connection; and fourthly, inter-provincial jealousies, which are steadily coming to the forefront (witness, *e.g.*, the ratio controversy, the cotton textiles protection, the Niemeyer Scheme of federal finance, etc.) can be depended upon for certain checks; and lastly, the active presence of an impartial economic judiciary, like the Tariff Board, duly fortified further if necessary as regards constitution and functions, can also be a valuable insurance. The Fiscal Commission had already anticipated this objection and held that the danger of political corruption was not so great in India as in some other countries more or less on these grounds; their hopes will not be belied if the greatest possible publicity is given to the findings of the Tariff Board and if this body is turned into a permanent investigating Commission on the lines of the American Tariff Commission or the Federal Trade Commission. The problem of vested interests is thus neither new nor newly discovered. To deal effectively with that problem moreover, is not beyond our capacities either at present or in the future; "the power to tax", Chief Justice Marshall used to say, "involves the power to destroy" and it is this weapon of taxation which among others can be wielded most effectively.

IV

Conclusion

To conclude, in the first place, the theoretical foundations of *laissez-faire* have been found to be inadequate because the assumptions on which they are based, such as that there is full employment, that "wage-rates tend to adjust themselves to demand and supply conditions in such wise that no in-

voluntary unemployment, other than such as is due to industrial fluctuations, can exist,"[28] that cosmopolitan good is the good *par excellence*, that changes in distribution would make no material alteration to international values,—these assumptions cannot be granted. Even the international division of labour, which is the mainstay of Free Trade, is not above reproach, because it is capable of doing permanent harm to a backward country in respect of its production and productive capacity, and because what *tends to be* is not necessarily for the best. So far as India is concerned, her case falls within the category of backward agricultural countries "wishful to develop manufactures", and possessing cumulative potentialities of natural and human resources. Thus Discriminating Protection of a piecemeal variety hardly meets the requirements of her industries, which, if we are at all to be honest about it, are undoubtedly shouting for a rapid growth. What is needed is a comprehensive visualisation of the industrial problem as a whole and we must also remember that industrialisation is a close interdependence between industries, old and new. The burdens on the consumer and the agriculturist are merely the arguments of crocodiles; there is no loss caused to these interests for which they will not be more than compensated in other ways, owing to increase of employment and owing to internal demand for foodstuffs and raw materials having increased. Moreover, for several years, at any rate, owing to fall of prices of all kinds, the consumers (*i.e.*, people still deriving incomes through employment or otherwise—*not* the unemployed) have gained all along the line. For these reasons, we need have no sympathy for the so-called consumers whose mythical interests seem to dominate our fortunes in fiscal policy. It should be remembered that every fiscal measure is bound to harm some people and benefit others, or harm the same people in some ways and benefit them in others; the function of economists is to deal with each case justly weighing the pros and cons and considering the *tout ensemble* of results and not merely to harp upon one set of such results. Owing to a lack of

[28] Pigou, *op. cit.*, p. 218.

industrial and commercial development in India, there is in evidence today an increase in destitution and unemployment, which have been caused as much by an increasing maladjustment of the labour supply as by a growing stream of population. At a time when the rest of the world's countries safeguarded their production structures and markets by restrictive measures against a plethora of dumped goods, what had the Government of India done ? Our Government was about the only one to have achieved the singular distinction of having done nothing in a world depression which hit agricultural countries the hardest. Our Government was obviously out to maintain *laissez-faire* in all its pristine purity; it would even go to the length of sacrificing Indian currency and fiscal policy on the altar of a false internationalism, lending volunteer services to its cause by refusing to enter into "a race of competitive depreciation" and to complicate (*sic*) international trade by imposing artificial "trade barriers".

PART I

THE WORKING OF PROTECTION

CHAPTER II

IRON AND STEEL

I

Introductory

The history of the growth of the Iron and Steel industry in India reads like a romance. The enormous success achieved by the industry in a comparatively short span of time must be attributed, firstly, to the intrinsic factors conferring a natural advantage upon the industry in India; secondly, to the untiring efforts of, above all, the one superman of Indian industry, who has had no compeer in this country, the founder of the humming industrial centre in Bihar, Jamshed N. Tata; and, last but not least, to the favourable atmosphere created by the system of protection erected on a thoroughly scientific basis by the Indian Tariff Board. The industry has been receiving protection since 1924. There is no doubt that this has largely enabled the industry to place itself on a sound footing and to fully justify the measure of protection granted. Not only has the Steel industry been placed on a sound footing within a period of fourteen years and on a basis of competitive equality with the Steel industry in other countries, but Tata's, which is the chief representative of the industry, was able to announce recently that it was "well equipped and fully prepared to meet all contingencies"[1] such as the withdrawal of protection in 1941, barring, of course, unforeseen circumstances, affecting the international supply and demand of the metal. So far as it is possible to foresee, it is not likely that either the producing capacity of the world's Steel industry or the de-

[1] *Vide* the speeches of the Chairmen of the Tata Iron & Steel Co., on the 27th June, 1938, and the 25th May, 1937.

mand for Steel would receive such a bad jolt as to cause the same difficulties as were experienced by Tata's during 1924-26 or 1930-33. For aught we know the immediate future points to a comparative stability, if not a boom, in the world's Steel market. *Prima facie*, therefore, the expectation of the Tata Company that they can stand foreign competition unaided after 1941 is not likely to be falsified. However, the one outstanding fact that emerges from the above is that the industry has made good the early promise shown and that too in such a short time.

Professor Taussig, in his *Some Aspects of the Tariff Question*, stated that twenty to thirty years would be a reasonable period for an infant industry to develop under the ægis of protection. "The length of time to be allowed for the experiment" he says, "should not be too brief. Ten years are not enough; twenty years may be reasonably extended; thirty years are not necessarily unreasonable......What has already been said of the tenacity of old habits and the difficulties of new enterprises justifies the contention that a generation more or less may elapse before it is clear whether success has really been attained".[2] Whatever be the other points to be considered,—such as the extent of protection granted whether it was excessive or insufficient the burden on the consumer, the "loss" of revenue to the Government etc.,—and these will be dealt with in their proper places, there is no doubt that judged by this first and most important test the Indian Steel industry has emerged unscathed. Another aspect of this same principle has been thus put by Professor Taussig one of the best exponents of the classical free-trade dogma: "Nevertheless in the end the final test must be applied,—can the industry, after a period not unreasonably long maintain itself unaided ?"[3] Taussig comes to the conclusion that "there is always the most violent opposition to the application of this, the sole decisive test". The opponents of the Indian protectionism have drawn lurid pictures of vested interests trying to exploit the consumers and

[2] *Op. cit.*, pp. 22-23.
[3] *Ibid.*, p. 23.

extracting undue gains and advantages from an only too willing Tariff Board and Government, partly drawing on their imagination and partly upon western experience in this regard. However, if the Indian case is to be judged purely on its merits it can be fearlessly asserted that those Indian industries which have received protection have not shown any such vicious tendency. So far as the Indian Steel industry is concerned, moreover, far from seeking to exploit the Indian market for their gain the Tata Company have been fully alive to their responsibilities and, with great efforts directed towards renovating and extending the plant reducing overhead charges, economising fuel and in scores of different ways, have brought their great works at Jamshedpur to such a high pitch of efficiency that the parallel of American and European industries clinging to protection hardly applies to them. As early as 1926, in their Representation to the Tariff Board, they actually stated with confidence, that "by 1933-34 if adequate protection is afforded to the Steel industry in India in the interval, it will be able to stand without special protection." This they could say on the basis of the enormous improvements in technical equipment which were due to be completed by 1932. It is no valid criticism of this offer to say that actually in 1933, the Company did, in fact, ask for further assistance. The repetition of the application for protection in 1933 was necessitated by exceptional circumstances with which we shall deal later. Within two years of the first grant of protection, the Company could accomplish the completion of the plant known as the Greater Extensions at Jamshedpur. However, they did not stop at this, but pursued a far-sighted policy of continuous extension and renovation with the sole aim of justifying protection. Whatever may be said of protected industries in foreign countries, the Tata Company and its associate industries, at any rate, have gone through a self-denying ordinance with a remarkable determination and now ultimately have prepared themselves for the coming competition.

The success of the industry becomes still more worthy of admiration, if we remember the circumstances under which the industry has been laboriously and painstakingly built up. During the war, the double impetus of increased

demand caused by the military requirements of the Government and the shutting-off of the foreign supplies, caused by lack of transport facilities, the Company made great strides. However, after the war and especially after the crisis of 1921 when a severe depression set in, the Steel industry in India had to face the competition of foreign producers of steel whose capacity was inflated due to war-time expansions, and, at the same time it had to stand the strain of a falling demand caused by the depression. Before it could raise its head again, after the difficulties created by excess capacity of the world producers of steel, the industry had to face the débâcle of the world depression of 1929-34, which led to an enormous fall in the world demand for steel and to falling prices all round. Side by side with falling prices the efficiency of foreign producers of steel was also improving rapidly. Owing to this, the competitive position of the foreign producers increased enormously, and they were in a position to sell steel at inordinately low prices in the Indian market. There was clear evidence that dumping was also resorted to with disastrous consequences upon the Indian producers. What with the cartellisation of the European steel producers and what with the vagaries of the Indian Protection, the Steel industry in India had to go through a veritable ordeal.

I have stated in Chapter I that I am not one of those who regard Discriminating Protection as a suitable weapon of fiscal policy for the peculiar conditions under which the Indian industries have been required to achieve their development. However, even supposing that the infant industry argument, rather than the infant country argument is theoretically the correct one for India, there are few industries in the world which were called upon to attain their stability, by means of Discriminating Protection, under such circumstances. There is no doubt that the classical argument in favour of infant industries assumes that the adult competitors abroad are not developing rapidly into monsters, and that the infant industry concerned has to develop itself to the stature of a, more or less, *static* adult. This does not, of course, mean that the adults cannot grow at all; some measure of growth in a changing world must be conceded. But the adult industry must be regarded as having reached a

substantial degree of stability; otherwise, it will be almost an impossible proposition for even the most vigorous infant to catch up with the progressively growing adult. However, this is the sort of miracle which both the Sugar Industry, with which we have dealt in the previous Chapter, and the Iron and Steel Industry were called upon to perform. The rigorous tests, applied by the Indian Tariff Board for assessing achievements and failures of these and other industries, are in themselves questionable propositions in view of the above important consideration. However, it is a matter worthy of note that the Steel Industry has justified its protection even from the standpoint of the rigid formulæ of Discriminating Protection, set up by the Fiscal Commission, and by the fiscal policy of the Government.

As we shall see, however, the 1934 Report of the Tariff Board virtually struck the industry off the roll of protected industries and this was in keeping both with the requirements of the industry and the policy of the Government. For, the Board admitted that, to a very large extent, the duties suggested in 1934 were of the nature of "anti-dumping" rather than protective measures.[4] Thus, the claim of the Tata Company in 1926 that by 1933-34, they would be in a position to do

[4] "Since the need for protection is due to the low price of untested steel in which competition comes entirely from the Continent, it is to the prices of Continental steel (and of steel from countries other than the United Kingdom) that the necessity for protection is to be attributed. Continental prices have shown an extraordinary degree of fluctuation during the past few years and often appear to bear no definite relation to the costs of manufacture. The sale of Continental steel is effected through an international organisation which apparently regulates prices for export markets according to the local conditions of each market and not necessarily to the expenses of production. It is against this class of competition based on indeterminate and often uneconomic prices that the Indian industry now requires protection. It will be noticed that nearly 70 per cent of the total amount of protection required by the Indian industry is in respect of untested structurals and bars which constitute the bulk of the articles imported from the Continent. To this extent, therefore, it is reasonable to suggest that the protection which we now propose for the Indian Steel industry may be regarded as in the nature of an anti-dumping provision rather than as a measure of substantive protection". (Report, 1934, p. 58.)

without protection *as such*, has, I think, been amply substantiated. The claim is still more strengthened and emphasized by the fact that the industry achieved its success in spite of strict and illiberal (unlike those in foreign countries) grants of protection in the beginning and their further whittling down with (*a*) differential duties in line with the Ottawa Scheme and (*b*) the later imposition of excise duties on steel ingots accompanied by countervailing duties on imports, which hit the internal demand. These were not the only obstacles in the way: the step-motherly treatment accorded by the Government of India's rail purchase policy for several years, on the one hand, and the alternate squeezing of the Tata Company in the matter of railway freights by the E.I.R. and the B.N.R. proved to be further stumbling-blocks in the way of progress. The critics of the Indian protectionism must realise that in other protectionist countries, this kind of inconvenient and unhelpful railway purchase and freight policies would have been unthinkable. The Indian railways, whether State-managed or Company-managed, have been the notorious pasture grounds for British salesmanship, while the stores purchase policy of the Government has also been a close preserve for the kith and kin of the Government in Simla. But, in spite of these obstacles, the Company set itself to the task of increasing the efficiency of production and thereby reducing the costs of production. Equipment has been kept in first-class condition, while the general and overhead charges have been steadily brought down. The most significant achievement of the Company has been that it has been able to *finance development practically entirely out of its earnings and depreciation fund*, thus avoiding even the possibility of over-capitalisation.

In their 1924 Report, the Tariff Board said: "It is far from an extravagant ambition that within fifteen or twenty years, India should be able to provide the whole of her domestic requirements of most kinds of steel, and should be able to produce at as low a cost as other countries".[5] This prophecy of the Board has now come true and in spite of a

[5] *Report*, 1924, p. 19.

growing domestic demand for iron and steel, the country is now rapidly approaching towards the ideal of self-sufficiency in respect of the Indian requirements of iron and steel. The increased use of iron and steel in India points towards a normal and healthy expansion of demand and should prove a sustaining factor, after protection is withdrawn. The slackening of foreign competition has helped the industry in recent years, but one cannot be too sure that the competition will not revive in the near future, once protection is withdrawn. The renewal of the International Cartel Agreement in June 1937 up to the end of 1940 has been a steadying factor in the prices of steel and dumping has been less frequent than it used to be some few years ago. From the point of view of world production, 1937-40 may be described as an iron and steel period. What with the increased activity in the armaments industries and what with the effects of a general recovery of business during the last year, the industry all over the world—America alone was a striking exception—maintained a high level of output. Demand has continued to shrink since the beginning of 1938, though the immediate prospects are not very clear owing to the halting nature of the present recovery. Still, prices were maintained at a fairly high level in Britain and the International Cartel also has helped the general movement. In view of the above, the stability of the Indian steel industry may be taken as almost assured, barring unfair competition or dumping. The stability and self-sufficiency have been achieved within less than the time anticipated by the Tariff Board.

It would be entirely a narrow view of the steel protection to consider the benefits that have accrued to the Tata Company or to the country in the matter of steel production alone. It must not be forgotten that a major and basic industry of great importance has been established in the country able to hold its own against foreign competition on a basis of equality of efficiency and modernised equipment. This ensures the rapid development of industrialism which depends largely upon the domestic manufacture of machinery. It has long been recognised by leading economists like Marshall, Taussig and others that the existence of a machine-tool industry in a country is a *sine qua non* of its industrial progress.

From this angle, the development of the Iron and Steel industry in India, even if it has meant some "burden" to the consumer of steel, has been a sound national investment, on which future generations will congratulate its sponsors. Its immediate importance to industrial planning, etc., however, will be stressed presently.

Secondly, the far-reaching consequences of the development of the iron and steel industry are also noticeable in the growth of subsidiary industries which have sprung up around the nucleus thus created: (*i*) The tinplate industry (represented by the Tinplate Company, with a production of 50,000 tons of tinplates), which has made such remarkable progress that it has evoked the admiration of Welsh experts, is also a key industry, assisting the oil industry in India, while, at the same time, it has also given an impetus to the fruit and fish canning industries. (*ii*) Next comes the wagon industry, represented mainly by the Wagon Manufacturing Works at Jamshedpur, now in charge of the E. I. Railway, whose capacity is about 1,500 broad-guage wagons in a year. (*iii*) The third industry is represented by the Tatanagar Foundry, started in 1926, which supplies more than one-third of the demands for cast-iron sleepers and other materials for railways in India. (*iv*) Then comes the Indian Steel Wire Products Company, which produces annually about 40,000 tons of steel rods, small bars, wires and wire-nails, and which has shared in the general expansion of internal demand for steel products. (*v*) The Light-foot Refrigeration Company have established a branch of their oxygen gas factory to meet the demands of the Steel Company for this product. (*vi*) Then there are a large number of re-rolling mills, foundries and workshops scattered all over the country depending upon materials provided by the parent industry. (*vii*) Among the new projects, mention may be made of the arrangement entered into by the Tata Company with Messrs Stewarts & Lloyds for producing tubes, and the proposed Roll Foundry at Jamshedpur designed to meet the demand for rolls of the steel industry. All these industries, which have followed in the wake of the establishment of a national steel industry, are the most complete indication of the potentialities of industrial development in the country.

The parent industry itself has been spreading progressively. The Tata Company was formed in 1907. The first production of pig iron took place in 1911 and that of steel in 1912. The original plant consisted of two Blast Furnaces and steel plant with Rolling Mills. The capacity was 120,000 tons of pig iron and about 80,000 tons of rolled steel. There has been, as we shall see later on, a continuous development for the last 20 years and the output has greatly increased during this period. In 1940, the capacity will be 1,200,000 tons of pig iron and the same quantity of ingots and 800,000 tons of rolled steel. The Indian Iron & Steel Coy., the second biggest producer of iron, was started in 1918 at Hirapur a few miles from Kulti. In 1936, it acquired the Bengal Iron Company. The amalgamated concern now possesses four Blast Furnaces of a modern type (two large and two medium-size), necessary coke ovens, auxiliary plant, large foundries, two small townships, collieries and extensive iron ore mines. The combined capacity is 850,000 tons of pig iron per annum. The foundries can produce cast-iron pipes, sleepers and general iron castings amounting to 100,000 tons per annum. Next important concern is the Mysore Iron Works, which was started about 1923, to produce about 28,000 tons of charcoal pig iron per year. Out of this, 7,000 tons are absorbed by cast-iron pipes. A steel plant has been recently added intended to produce about 15,000 tons of bars and small sections and 5,000 tons of hoofs. The Tata Company, owing to several causes which will be touched upon presently, has been the sole monopolist producer of steel in India. This dominating position of the Company, however, will be challenged in the near future by the Steel Corporation of Bengal, which was registered in 1937. This Corporation originally intended to work in unison with Tata's. However, after protracted negotiations, the Scheme was abandoned. The promoters of the Corporation have promised that the work of installing plant and equipment will be completed by 1941. The annual output aimed at is between 200,000 and 250,000 tons of steel.

The fortunes of the pig iron, of the coking coal and of the subsidiary industries enumerated above are intimately

bound up with those of the steel industry, in the pyramidal structure which has thus been erected whatever be the initial disadvantages of protection—and nobody denies them, though they are grossly exaggerated by the enemies of Indian protectionism and industrialisation—this enormous structure of industries could certainly not have come into existence but for the assistance,—scientifically rendered,—by the policy of protection. Contrast with this the situation which would have followed, if, at the critical juncture of the industry, protection were refused. It is best stated in these weighty words of the Tariff Board:

"We have no desire, however, to minimize the consequences of what we have proposed. Protection for steel involves a real burden on the community and a temporary sacrifice in order to secure advantages in the future. If we did not believe that the sacrifice was temporary and the advantages more than commensurate, we should have had no proposals to lay before the Government of India. In so far as these advantages lie in the future, there is no need that we should dilate upon them here. They arise naturally from the firm establishment of a great industry which is essential to national security and for which India possesses great natural resources. But it is worth while to consider briefly what the consequence would be if protection were withheld and the manufacture of steel in India were to cease. A large number of workmen would be thrown out of employment and the industrial training they have gained at Jamshedpur would be to a large extent wasted. A very serious blow would also be inflicted on the coal industry owing to the sudden drop in the demand for coal. These, however, are not the most serious results. The development of India's natural resources for steel manufacture would be postponed indefinitely, for we have no hope that, at the present level of prices, fresh capital would be forthcoming or that another firm would enter the business. Finally, and this is the gravest consequence of all, the shock to public confidence in the future of Indian industries would be extreme. It has long been recognised that the progress of industrial development in India will be slow until Indian capital is forthcoming in much more abundant measure than it has been in the past. The complete collapse of the greatest single industrial enterprise in the country would put back the clock for twenty years at least. We do not claim that these considerations are decisive. But they are factors which must be taken into account in arriving at a decision on a momentous issue".

I have quoted the above passage *in extenso*, because there is always a temptation for critics of protection to suggest that even in the absence of protection a particular industry might have prospered and attained maturity, if the situation

was really so favourable for its growth, *i. e.*, if it had a definite natural advantage; or, rather, *post hoc ergo propter hoc*. Speaking of the American iron and steel industry, Professor Taussig thus answers this argument: "And yet the unbiased inquirer must hesitate before committing himself to such an unqualified statement of what would have been. Rich natural resources, business skill, improvements in transportation, wide-spread training in applied science, abundant and manageable labour supply,—these perhaps suffice to account for the phenomena. But would these forces have turned *in this direction* so strongly and unerringly, but for the shelter from foreign competition? Beyond question, the protective system caused high profits to be reaped in the iron and steel establishments of the central districts; and the stimulus from great gains promoted the unhesitating investment of capital on a large scale."[6]

Detailed figures for the growth of the industry in India are given in subsequent pages. It may be interesting, however to assess its importance amongst the leading producers of the world. In the Tables (I, II, III) below, figures are reproduced for world production of iron ore, pig iron and steel respectively, in recent years.

[6] *Op. cit.*, p. 150. The same writer admits that protectionism was accompanied by extraordinary growth of industries in Germany and the United States. "It is certain that since the adoption of the protective system by the German Empire in 1879, there has been an extraordinary advance in all the technique and organisation of manufacturing industry......Yet, in general, it is as certain in the case of the United States as in that of Germany that the march of technical improvement has been extraordinarily rapid during the period of the maintenance of a high protective system". *Ibid.*, p. 29 (see pp. 293 ff. also). Coming from the pen of a staunch free-trader, these words have much value.

TABLE I

World Production of Iron Ore

(In million long tons)

	1929	1932	1934	1935	1936
North America					
Newfoundland	1.5	0.1	0.6	0.6	0.9
United States	73.0	9.8	24.6	30.5	48.8
South America					
Chile	1.8	0.2	0.9	0.8	1.3
Europe					
Austria	1.9	0.3	0.5	0.8	1.0
Czechoslovakia ...	1.8	0.6	0.5	0.7	1.1
France	49.9	27.2	31.5	31.6	32.7
Germany	6.3	1.3	4.3	5.2	...
Luxemburg	7.5	3.2	3.8	4.1	4.8
Spain	6.4	1.7	2.1	2.6	...
Sweden	11.3	3.2	5.2	7.8	11.0
U. S. S. R.	6.9	12.0	21.4	26.6	27.5
U. K.	13.2	7.3	10.0	10.9	12.7
Asia.					
China	2.6	2.2	2.5	...	...
India	2.4	1.8	1.9	2.4	2.6
Malaya	0.8	0.7	1.1	1.4	1.7
Africa.					
Algeria	2.2	0.5	1.3	1.6	1.9
Morocco (French) ...	1.2	0.2	0.8	1.1	1.1
Australia	0.9	0.6	1.2	1.9	...
World Total.					
All sources	200.0	75.0	118.7	138.7	170.0

TABLE II

World Production of Pig Iron

(In million long tons)

	1929	1932	1935	1936	1937
North America.					
Canada	1.2	0.2	0.7	0.7	1.0
U. S. A.	42.6	8.8	21.4	31.0	37.3

Europe.					
Belgium	4.0	2.7	3.0	3.2	3.7
Czechoslovakia ...	1.6	0.4	0.8	1.1	1.6
France	12.3	6.8	6.0	6.1	7.8
Germany	13.2	3.9	12.3	15.1	15.7
Luxemburg	2.9	1.9	1.8	2.0	2.5
U. S. S. R.	4.0	6.3	12.3	14.1	14.4
United Kingdom ...	7.6	3.6	6.4	7.7	8.5
Asia.					
India	1.4	0.9	1.5	1.5	1.8
Japan	1.5	1.5	2.7	2.2	3.2
World Total.					
All sources	97.2	39.2	73.5	91.0	101.8

TABLE III

World Production of Steel

(In million long tons)

North America.	1929	1932	1935	1936	1937
Canada	1.4	0.3	0.9	1.1	1.4
United States	56.4	13.7	34.1	47.8	50.7
Europe.					
Belgium	4.0	2.7	3.0	3.1	3.9
Czechoslovakia ...	2.2	0.7	1.2	1.5	2.2
France	11.7	6.9	6.2	6.6	7.7
Germany	16.0	5.7	15.8	18.9	19.4
Italy	2.1	1.4	2.2	2.3	2.1
Luxemburg	2.7	1.9	1.9	2.0	2.4
Poland	1.4	0.5	0.9	1.1	1.1
U. S. S. R.	4.6	5.7	12.3	16.1	17.1
United Kingdom ...	9.6	5.3	9.9	11.7	12.9
Asia.					
Japan	2.3	2.4	4.3	4.9	5.7
India	.3	.4	.6	.7	.7
World Total.					
All sources	118.1	49.9	97.5	122.6	132.5

From the above three Tables, it will be clear that in the scheme of the world production of iron ore, pig iron and steel, India is still an obscure quantity. Particularly, in regard to steel production this backwardness is most noticeable. How can we explain this comparative atrophy of the Indian steel industry notwithstanding the undoubted success which it has achieved in the reduction of costs and notwithstanding the definite advantages which it enjoys in respect of the raw materials? Even Japan, which has such a paucity of raw materials,[7] leads us in steel production. On the other hand, India's reserves of iron ore are almost fabulous and their quality of a high order. If, in spite of this advantageous position, the Indian steel industry is a pigmy as compared to the world's principal producing areas, the reason is to be attributed, in my view, to the undeveloped Indian consumption of steel. The growth of a basic large-scale industry like iron and steel depends upon the rise of a highly industrialised system of production, like the one in the United States or Russia or Germany, and upon a *cumulative* expansion of the mechanical means and methods of production. Unfortunately, in India, the piecemeal halting and valetudinarian policy of industrialisation by protection has not created the correct atmosphere for such a cumulative growth of large-scale enterprise. The Government's insincerity in regard to technological and industrial instruction and research is too well-known to need any emphasis here,[8] its apathy and half-heartedness towards industrialisation and its constant interest in the agriculturisation of the country are also too notorious to be mentioned. The parent industry

[7] Reserves of iron ore in Japan proper are estimated at 80 million tons only, while the total deposits of low-grade iron ore (between 30% to 50%) in Chosen are said to be not more than 400 million tons. Japan at present obtains nearly two-thirds of her requirements of iron ore from abroad. Moreover, although Japan is self-sufficient in the matter of coal, most of the coking coal also has to be imported from abroad. (Cf. *Japanese Trade and Industry, Present and Future*, p. 200).

[8] For a very frank and lucid account of the Government's hypocrisies in this respect, *cf. Science and Culture*, September, 1938, article on "Industrial Research in India".

of all mechanical industries cannot be prosperous under such conditions. When Friedrich List made his famous plea on the basis of the doctrine of stages in economic evolution—on the inevitableness of the transition from the agricultural and extractive stages to the manufacturing stage, and on the advantages of protective duties for furthering and easing this transition,—he did not envisage this kind of "nibbling" process of piecemeal protection granted in an haphazard fashion.[9] The cases of the several very deserving industries, like glass, heavy chemicals, electric wires and cables, as also numerous other embryonic industries, spring to the mind. What Japan, with her poverty of natural and mineral resources could achieve, should have been possible for India as well, but for the policy of economic stagnation pursued by the Government of the day.

Below are reproduced figures (Table IV) for the total consumption of steel in India and the share of the Tata Company in the Indian market.

TABLE IV

Total Consumption of Steel of the Kinds Manufactured by Tatas (a)

(Thousands of Tons)

	Total Consumption	Tata's Share %
1923-24	836.6	17.6
1924-25	839.4	28.5
1925-26	1038.0	31.3
1926-27	1004.6	37.3
1927-28	1402.6	30.1
1928-29	1145.9	23.7
1929-30	1078.7	35.4
1930-31	811.4	51.2
1931-32	627.2	65.4
1932-33	574.1	72.3
1933-34	634.5	76.3
1934-35	780.3	76.2
1935-36	873.0	72.1

[9] Mill's pronouncement in favour of protection under such conditions also implied the infant-country rather than the infant-industry argument.

	Total Consumption	Tata's Share %
1936-37	861.8	75.4
1937-38	821.5	76.2

(a) Including imports and Tata's despatches to customers but imports entering by Kathiawar ports (which may be about 5 to 6 per cent of total consumption) not taken into account. Burma excluded in 1937-38. Production of re-rolling mills, which may be put at about 5 per cent is also excluded.

It will appear that the consumption of steel showed a rising trend up to 1929-30. Owing to the catastrophic depression which followed, till 1932-33 the consumption was kept at a very low level. During the last four or five years, however, there has been some recovery in consumption, which shares in the general world-wide recovery of production and trade. Coming to the share of the Indian producers, however, the Tata Company's despatches show a rising percentage in the total consumption. From as low as 17.6 per cent in 1923-24, it has risen to 76.2 per cent in 1937-38. It is noticeable that there was a temporary set-back between 1926 and 1929. This must be attributed to the adverse influences of the rupee-sterling ratio, of the dumping policy of the Continental and British producers of steel during these years, and the prolonged strike in 1928 in the Tata Works. Recent developments, however, are a matter of some satisfaction. Still, taking into consideration the fact that even at the present level of consumption nearly 25 per cent of the total is imported from abroad, there is scope of further expansion of the indigenous industry and for the establishment of new concerns. It is to be hoped that the new Steel Corporation will fill in this gap.

Apart, however, from the fact that the Indian proportion of total supply is a rising one, the state of the total consumption itself makes a sad story. It will be seen from Table IV that during all these years the Indian market has been a stagnant (even a contracting) one; this is no doubt largely due to the reduction of the Government purchases of rails, fish-plates, bars, and other articles, caused by the financial condition of the railways; but even apart from the Government programme, the business purchases also show

hardly any substantial improvement. A bold, forward policy of rapid industrialisation is clearly indicated as a solution of this problem of stagnation.

The accompanying Chart (Table V) shows the great strides made by the Tata Company in spite of the adverse circumstances, with the help of protection. The Tariff Board's estimate of average output for 1934-41[10] has been considerably exceeded in recent years, thanks to great improvements in efficiency effected by the Company in recent years owing to the completion of the extension programme. It must be realised that the real competitive power of the vast Continental and American concerns arises from the immense scale of their outputs. I do not think that there is any substantial difference in regard to works costs between the Indian concern and its foreign competitors. The main advantages derived by the foreign concerns are due to amalgamation, reduction of the overhead charges, controlled exploitation of internal markets, and the persistent and systematic development of foreign markets by means of dumping by the powerful steel corporations.[11] If the Indian steel industry is to develop on the same lines as in the West, it is evident that its scale of operation, organisation and finance will have to be extensively increased, so as to increase efficiency, to reduce the cost of production and to bring greater staying power in competition. All this, however, presupposes an all-round development of modern industries (including the machine-tool and Engineering industries) and a progressive programme of public works, financed out of loans, as in Russia, Japan, the United States and Germany.[12] It would be almost a platitude to say that here in India we have an enormous ptoential market for steel in the coming years; for, the industrial possibilities, which are so immense (owing to a plenitude of natural resources) that only two or three countries of the world (*viz.*, the United States, Russia and perhaps China) can stand

[10] *Report*, 1934, Volume I, p. 45.

[11] *Cf.* Taussig, *op. cit.*, pp. 202 ff. also p. 172 and p. 402.

[12] Even on the basis of the present demand in India, the Tariff Board opined that there was room for three iron works of the type of Tata's.

TABLE V

Output Of Steel: Arranged by products. Also Tariff Board's Estimates For 1927-34 and 1933-34. (Thousands of Tons)

	Tariff Board's Estimates		Actual Output[2]							Tariff Board's Estimates	Actuals			
	Yearly Average 1927-34	1933-34	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-41	1934-35	1935-36	1936-37	1937-38
Rails	195	210	174	89	136	112	47	38	35	8	78	64	84	74
Fish-plates	7	8	7	4	4	6	2	2	2	3	4	3	3	3
Structural Sections ...	70	95	52	39	63	83	103	99	132	117	135	155	131	126
Bars	90	100	72	49	80	77	93	86	92	80	98	99	99	119
Plates	30	35	26	21	32	35	23	29	49	35	34	46	51	65
Black Sheets	13	15	19	11	21	23	24	12	24	25	20	40	29	27
Galvanized Sheets ...	30	47	9	10	18	27	29	47	59	90	72	75	92	81
Sleepers	15	30	4	1	8	2	...	8	3	15	15	16	16	2
Tin-bars	50	60	65	52	48	57	65	53	62	110	147[3]	148	162	163
Other Semis[1]	...	...	1	...	2	12	64	53	73					
TOTAL ...	500	600	429	276	412	434	450	427	531	555	603	646	667	660

[1] Including Sleeper-bars.
[2] Earlier figures for total output (in tons, 000) are as follows:—
1923-24—163.2 1924-25—248.0
1925-26—319.9 1926-27—374.2
[3] From 1934-35 onwards Semis include tin-bars also.

comparison with India in regard to such a well-balanced economy. The progress of industrialism will mean the progress of iron and steel. Future efforts, therefore, must lie along these lines, instead of along those of merely replacing foreign supplies. It may be remembered, in this connection, that the United States, the biggest producer of the ferrous metal, is able to dispose of its supplies practically wholly in the domestic market. The recent re-orientation of the Congress economic policy on the basis of industrial planning is to be whole-heartedly welcomed for these reasons. I feel that not only the Provincial Governments responsible for the initiative but also the steel industry itself must take an active interest in this new direction which may open up unlimited vistas of commercial possibilities, bringing gain both to the industry as well as to the nation.

II

The Natural Advantages

Let us consider the natural advantages of the Steel Industry in India. The main factors to be examined in this connection are: (A) Raw Materials, (B) Fuel, (C) Market, and (D) Labour.

(A) *Raw Materials:—*

1. The principal material in this connection, of course, is iron ore. There are four different types of iron ore in India —magnetite, laterite, clay ironstone, and hematite. The largest deposits of magnetite "estimated in thousands of tons"[13] occur in the Salem and Nellore Districts of Madras, "but the scarcity of fuel makes it impossible to work the deposits on a large scale." The laterite ores also abound in enormous quantities, but they are of low grade and not particularly attractive. Clay ironstones are found inter-bedded

[13] *Vide* Paper by Aloke Bose in the *Journal* of the Iron and Steel Institute, 1914, pp. 528-542, quoted by Dr. C. S. Fox (see Tariff Board, Report, 1924, p. 90).

in the coal-bearing strata of the Indian coal-fields. The best-known occurrence of clay iron-stone in India is that of the Raniganj coal-field. The ore, used in the Barakar Iron Works at Kulti during 1889-1905, contained as much as 46 per cent iron. Perhaps the most valuable iron ores in India at the present time are the hematite ores of Singhbhum and Orissa in what is known as the "Iron Belt". Dr. C. S. Fox of the Geological Survey states[14] that "Both in quality and quantity these ores are thought to exceed any other ores of the same kind, including the Great American occurrences of Minnesota, Wisconsin and Michigan". According to an estimate made by Mr. H. C. Jones of the Geological Survey, quoted by Dr. Fox, these hematite ores of the "Iron Belt" contain not less than 60 per cent Fe. (iron), while the total quantity of ore contents of the "Belt" is about 2,832 million tons. The ores should be sufficient for the requirements of the Indian producers for 1000 years assuming an output of 1,500,000 tons of pig-iron per annum. In addition to the great hematite deposits of the "Iron Belt" there are also several other occurrences of importance in the Central Provinces, Mysore and Kumaon. The hematite ores of the Lohara deposits and those of the Rajara Hills and Chanda contain between 60 to 70 per cent Fe. In the Central Provinces, however, the fuel question confronts any project for erecting iron works. The Mysore deposits contain 42 to 64 per cent Fe. while the Kumaun deposits between 39 to 60 per cent Fe. The total deposits of hematites from all sources, including the Iron Belt, may be put at 3,000 million tons.

Comparatively speaking, the Indian iron ore is superior to that used in some of the leading iron and steel producing countries of the world, in regard to its iron content as will appear from Table VI:—

[14] Report included as an Annexure to the Tariff Board's Report, 1924, p. 91.

TABLE VI

Iron Content of Ores in various countries

India	55 to 70 per cent.
Britain	30 to 35 ,, ,,
France	40 ,, ,,
Belgium	35 ,, ,,
Germany	40 ,, ,,
U. S. A.	50 to 60 ,, ,,
Sweden	60 to 70 ,, ,,
Spain	50 to 60 ,, ,,
Japan	30 to 50 ,, ,,

Owing to the high iron content of its ores the Indian industry possesses the great advantage of a low cost of pig iron, and which requires less ore and less coal in consequence. Even in the case of the districts of Alsace and Lorraine and Luxemburg, where iron ore is obtained cheaply in open workings and is smelted in furnaces located close to the mines, the low iron content of the ore renders production more expensive on account of the larger quantities of ore handled and the larger consumption of coke necessary to smelt it. The Tariff Board computed[15] that the advantage possessed by the Indian industry over the Continental countries in this respect was of the order of Rs. 8 per ton of steel. On the other hand, we must consider the fact that the Indian ore has a peculiarly inconvenient composition. By reason of the low phosphorous content of the Indian pig iron, the cheaper Continental process, *viz.*, the Basic Bessemer process cannot be availed of here, while, owing to the low percentage of lime, larger quantities of limestones have to be used as flux in the blast furnaces than is the case in Great Britain and on the Continent. The Tariff Board estimated[16] India's

[15] Report, 1934, p. 59.

[16] *Ibid.* The Tariff Board state, "The advantage possessed by the Indian industry in the low cost of its pig iron is, therefore, in our opinion sufficient to offset the economy obtained on the Continent by the use of the Basic Bessemer process". They further add, "From the point of view of natural advantages, we see no reason to assume that India is under any handicap as compared with Continental countries in the manufacture of steel". As the Continental production of steel is by far the cheapest in the world, these remarks are of great significance.

disadvantage due to the former fact at Rs. 5 per ton at the outside; it is not possible that the disadvantage due to lime deficiency can be more than Rs. 3 per ton, which is the difference between the advantage due to high iron content and the disadvantage due to low phosphorous content of the Indian ore.

2. Coming to the question of *fluxes*, which form another important raw material, the impurities of the iron ore are removed with limestones and dolomites so as to produce pig-iron. For removing the impurities of the ore in the furnace and extract them into the slag, limestones are superior to dolomites. Silica, alumina, phosphorus and, particularly, sulphur are impurities which should not exceed certain stipulated percentages. Although limestones are more effective than dolomites, unfortunately most of the large occurrences of rich limestones in India lie at distances exceeding 200 miles from the iron-producing centres. The Tata Company at first got their limestone from Katni, but later turned to their own quarries at Gangpur and obtained dolomites from rocks.[17] Recently, however, the Company has again reverted to the use of limestones. In Assam, in C. P., and in Central India, plentiful supplies of limestones occur. It is true that the richer sources of supply are at some distance from the iron and steel works. However, this is not a ground on which we can say that the industry has no advantage at all. It is impossible for any country to possess all the necessary raw materials in the same place. What matters is that the principal materials, which imply heavy costs of haulage and which form the bulk of the raw materials, should be as near to one another as possible. The order of magnitude of each material has to be taken into consideration. From that viewpoint limestones, which form a small proportion of the sum-total of materials, are not so uneconomical in their final cost incidence, as is supposed. The Lake Superior iron

[17] It was admitted by the Tatas in their evidence before the Tariff Board (Report 1924, *Minutes of Evidence*, Vol. I, p. 278) that the dolomites, though obtained in close proximity to the works, were not so good in quality.

region in the United States, which commands the leading position in that country for the production of ore, is separated from the coking-coal centres by hundreds of miles; and yet, a thriving pig-iron and finished-steel industry has arisen in these regions.[18] The question of the nearness of coal to iron ore is discussed later. Here it may be stated that the distance at which fluxes are available is not such an important factor as is sought to be made out by critics. Moreover, the excellent quality of the limestone obtainable makes up for the distance, to some extent.

Apart from limestones and dolomites, a third fluxing material, *viz.*, flourspar, is also used in steel-making in India. An endeavour was made to exploit an occurrence at Barla, but it was found that the quantity available was not sufficiently attractive. The Indian Companies, therefore, obtain their supplies from abroad, the imports amounting to a few hundred tons per annum.

3. Modifying metals are required to add to the mechanical properties of the finished steel and are used in the form of alloys—the principal ones being manganese ores and silicon. The average Indian production of manganese is about 100,000 tons per annum[19] of which a major portion is exported to foreign countries. The figures for exports are

[18] Taussig, *op. cit.*, p. 125, draws attention to this fact: "It is one of the surprises of American industry that iron manufacturing on a huge scale should be undertaken at such points, distant alike from ore and from coal. The coke is moved hundreds of miles by rail from Pennsylvania, and meets the ore which has travelled no less a distance from Lake Superior. Ease of access to the western market gives these sites an advantage, or at least goes to offset the disadvantage of the longer railway haul of the fuel......The geographical conditions on which a large iron industry must rest were supposed by Jevons in 1866 to be the contiguity of iron and coal. But here are supplies of the two minerals separated by a thousand miles of land and water, and combined for iron making on the largest scale known in the world's history." Taussig makes it clear that this disadvantage of distance has been overcome by the transport policy and facilities in the U. S A. (pp. 128 ff.). The Indian railway freight policy, on the other hand, has been anything but helpful to the iron and steel industry.

[19] Total value is easily more than Rs. 1½ crores normally. Recently owing to the war, values have gone up.

729,000, 677,000, and 1,056,000 tons in the years 1935-36, 1936-37 and 1937-38 respectively. India is the leading producer of manganese ores and her production is roughly half of the total world's output of manganese ore. Manganese is consumed in the preparation of spiegeleisen and "ferro" for the steel industry. In India, the most important sources of supply are located in C. P., Bihar and Orissa, which supply nearly 95% of the total, while Madras and Bombay supply the balance. The Indian consumption is a minute proportion of the total output (about 4 to 5 per cent only). From the point of view of location, quantity and quality, there is no doubt that India is very favourably placed in regard to this valuable material. There is, however, one disquieting feature to be noted: at present the Indian deposits are being largely exploited by foreign contractors and are in the process of rapid exhaustion. This problem will have to be tackled by the Government in order to safeguard not only the future self-sufficiency of India in regard to manganese but also in the interests of the future development of the iron and steel industry.

As regards silicon, there is no difficulty in obtaining supplies of quartz for the preparation of ferro-silicon. The quartz rock now being used at Kumardhubi for making silica bricks is of the required quality.[20]

4. *Refractory materials* are required for the open hearth furnace which is built of fire-bricks and silica bricks, while magnesite and dolomite are used for the basic lining of the furnace. Fire-clay exists in many parts of India and the manufacture of fire-bricks is carried on extensively. The manufacture of silica bricks, which was established during the last War at Kumardhubi, uses raw materials of excellent quality obtained from Bihar. The silica bricks are not produced yet to the necessary degree of perfection; but the material available in various parts of India is of the best quality and the reserves are enough to meet almost any conceivable domestic demand. The best chromite is produced in Bihar and Orissa and Mysore, but most of it is exported at present, as the local

[20] Dr. Fox's Report, *loc. cit.*, p. 195.

demand is very small, and the Tatas use it for giving a neutral lining to the basic steel furnaces at Jamshedpur. As the phosphorous contents of the Indian iron ore are small, the use of magnesite is limited. Yet, India possesses reserves of this material in almost unlimited quantities in the Salem district of Madras.[21] Although, on the whole, the refractory materials used in Indian works are not of the same high quality as in European countries, the cost of these materials is much lower, while their incidence in the final costs is almost negligible. Moreover, constant technical improvement is taking place.

(B) *Fuel and Power:—*

Coming to the question of fuel and power, the chief sources of fuel are coking coal and to a smaller extent charcoal (used in Mysore). The future of the Indian iron and steel industry, however, pivots on the reserves of coking coal available. Doubts have been expressed as to the sufficiency of coking coal for a large-scale domestic iron and steel industry. The total reserves of coal of all grades are estimated at more than 50,000 million tons, but most of these are found to be unsuitable for the production of metallurgical coke. Moreover, the coking coals of India are high in phosphorus and moderately high in ash, judged by European and American standards. Due to these defects, the percentage of coal tar—an important by-product,—obtained, is lower than abroad; while the presence of ash also leads to low calorific value. The Indian Industrial Commission (1916-18) were of the opinion that for metallurgical purposes the supplies of suitable coal are greatly restricted, that the quality of the coking coal was such as to reduce its "radius of economic use under conditions of railway transport" and that its economic value will still further diminish, "as the shallow seams are exhausted and the deeper coal is worked at higher cost."[22]

[21] *Ibid.*, p. 196.

[22] *Vide* their *Report*, p. 58. The Burrows Committee on Coal mining also held that there was a great wastage in the course of mining (about 50%), of which a greater part could be avoided with sand-stowing and that at the present rate of working, the life of some of the coking coal reserves would be between 55 to 65 years. They also recom-

Dr. Pascoe, the Director of the Geological Survey, was of the opinion, however, that "assuming 3 tons of coking coal to be necessary to produce 2¼ tons of coke, there is enough coking coal in India to supply the iron and steel industry with 4 million tons of metallurgical coke per annum for 150 years at least"[23]. According to Dr. Fox's own estimates the Gondwana region, including the Bengal, Bihar and Orissa coal-fields, contains about 2,180 million tons of good quality coking coal, while Upper Assam contains another 220 million tons, thus making a total of 2,400 million tons. On the other hand, the known iron-ore reserves of the Iron Belt are in the neighbourhood of 2,830 million tons, which according to an estimate, would require 3,000 million tons of coking coal. This estimate was made some years ago; since then, however, the coal consumption per ton of iron ore has gone down considerably.[24] The Tariff Board pointed out that the sufficiency or otherwise of coking coal could not be decided "Until further surveys and explorations have been made"; at the same time, they admitted "the desirability of conserving India's present resources of metallurgical coking coal".[25] It is conceivable, as the Board further add, that new discoveries may render it possible to utilize, in the manufacture of iron, coal which is at present classed as non-coking. It is also possible that fresh discoveries of coal may be made in regions where iron ore is also present. The feasibility of smelting the iron ores with the help of electricity also must not be brushed aside. Though it is unsafe, of course, to place much reliance on all these possibilities, if the distance of time is taken into account, such points have to be weighed.

mended strict measures of conservation on grounds of public policy, apart from the interests of the iron and steel industry.

[23] In his covering letter accompanying Dr. Fox's Report, *sup. cit.* This, however, is clearly an under-estimate. See *infra*. Five hundred years would be more correct.

[24] In 1925-26, the consumption of coal per ton of rolled steel was 4.09 tons, but for the year 1931-32, it came down to 3 tons and for 1932-33, it was 2.87 tons. (Tariff Board, *Report*, 1934, p. 30.). Similar economies must have been effected in the pig iron section also.

[25] *Report*, 1924, p. 12.

One interesting fact to be narrated, however, is that unlike many foreign countries, where in many cases, the manufacturer obtains his supplies of coal from distances of 200 miles or more (in America, the distances are even much longer as we have seen already), in India, the coal and iron deposits are available almost side by side. The Tata Works is situated at a distance of only a little over 100 miles from the coal-supplying area. Moreover, the Indian coal is available at low prices and makes up for its inferior quality by its cheapness.[26]

(C) *Market*:—

It has been suggested by critics that the Indian steel market is not large enough for a comprehensive, balanced and economic growth of the steel industry. The Tariff Board in 1924 put down the total consumption of iron and steel in India as being in the neighbourhood of 1½ million tons per annum and of steel at 1 million tons only.[27] These figures included a

[26] Critics exaggerate the danger of exhaustion of the coking coal reserves. Thus Dr. H. L. Dey, *op. cit.*, pp. 175-76, opines that if there is an enormous expansion in the iron and steel industry in India, the reserves would be used up in a few decades. He forgets, however, that the iron ores also will be exhausted at the same time. Moreover, he is comparing the known reserves of iron ores with the known deposits of coking coal, which, in view of the incomplete nature of the Indian Geological Survey, is not quite a reliable procedure. The present coal consumption of the iron and steel industry is between 4 to 5 million tons per annum. At this rate, our total coking coal deposits can last for nearly 500 years. The consumption of the Tata Works during recent years was as under:—

	Tons (000)	Rs. (lakhs).
1934-35	1,493	86
1935-36	1,517	87
1936-37	1,562	94
1937-38	1,705	104

(It may be noted here that Japan's iron and steel industry is fed by foreign imports of coking coal, although Japan is self-sufficient in regard to other types of coal. Cf. *Japanese Trade and Industry*, p. 200).

[27] Dr. Dey, *op. cit.*, p. 179, also arrives at "a figure between 1¼ and 1½ million tons for the consumption of steel in India, which includes only finished steel and not hardware, machinery or vehicles. However, it is surprising that both he, as well as the Tariff Board, should regard this

considerable amount of machinery, hardware, motor cars, etc., which have not so far been produced in India. We have already discussed in an earlier section the development of the Indian demand for steel and the share of Tata's therein. It will appear that the consumption of finished steel has not increased to any great extent since 1924, though the foreign supplies have been replaced by indigenous supplies. We have already indicated the probable causes of this retardation: the depression, the non-development of other industries and general industrial backwardness, the financial decline of the railways, etc. It is impossible, however, to regard the present consumption of steel as a permanent index of future demand, for this itself depends upon a variety of factors, including the fiscal policy of the Government with regard to other staple industries of the future. Even in the present state of demand, there is room for one or two more plants besides Tata's. It is the fear of some that even if more producing units are established, they may enter into monopolistic agreements with one another and exploit the full possibilities of the tariff by raising prices. However, it is clear that when protection is withdrawn this exploitation will not be possible to the extent imagined by the critics. Cartellization, as Taussig observes, is almost a universal tendency in the heavy industries;[28] he also adds that it has a steadying influence upon prices and production. Apart from horizontal combination, moreover, vertical integration of firms is, I feel, an urgent need of the Indian iron and steel industry. The wide rami-

itself as the permanent extent of market in India. If a country, like Japan, could build up an iron and steel industry, in spite of innumerable handicaps of raw material and fuel, and produce nearly 3 million tons (thrice that of India) of finished steel with a progressive and bold policy of industrialisation, it is India's misfortune that with almost a rare coincidence of advantages, we should not be able to develop our consumption to any material extent. The moral of this, if any, is not that the present fiscal policy deserves to be replaced by *laissez-faire* so dear to the Government's spokesmen and advisers, but that the State must take an autarchic view of economic development and harness every available weapon of economic policy to the furtherance of industrialisation.

[28] *Op. cit.*, pp. 171 ff.

fications of the Tata concern are to be welcomed from this angle.

(D) *Labour:—*

It has been a criticism of the Indian labourer that he has no industrial training and that he is ignorant, conservative, unenterprising and indolently contented with his lot. Yet the critics forget that this itself is a consequence of the slow policy of industrialisation and of the Government's apathetic attitude towards technological training. It is a testimony of the topsy-turvydom of the logic of the critics of protection that the factor of skill and efficiency of labour, which may be expected to develop in course of time *as a result of protection and industrial development itself*, is expected to be provided in the beginning. The illogicality of the criticism becomes still more serious when the backwardness of labour is used as an argument against the grant of protection. When an industry is new, and especially in a country which is not fully developed industrially, labour initially must be found in every case to be ill-trained and unskilful. However, gradually with the increasing opportunities for employment created by the nurtured growth of industries, the requisite labour is bound to arise within less than a generation. In this connection it is worth quoting the testimony of Sir Thomas Holland who said, "Anyone who has visited the Tata Steel and Iron Works will come away thoroughly convinced with the conclusion that with Indian labour you can tackle any industry for which the country is suitable. I have seen labourers at Sakchi who only a few years ago were in the jungles of Santals without any education. They are handling new red-hot steel bars, turning out rails, wheels, angles of iron, as efficiently as you can get it done by any English labourer. You cannot have a better test of the quality of labour and you cannot be prepared for more satisfactory results". This progress in the education of labourers has been achieved in the course of a few years, and shows that the lack of skill is only a temporary disadvantage. Technical knowledge is not the monopoly of any one nation; sooner or later, any country wishful to possess it can do so provided it is prepared to make

the initial investment of funds.[29]

As regards the steel industry, on the item of labour, two main charges have been made by the critics: firstly, that owing to the necessity of having to import foreign labour (covenanted experts) the cost of making steel has gone up; and secondly, that there has been an excesssive employment of unskilled labour in the Tata Works, as compared to other Indian works and to those in foreign countries. As regards the former charge, it must be said that it is always an inevitable feature of the establishment of a new industry in a backward country that the skill has to be imported, as the history of Japan, Russia and several modern industrial countries shows. This is not a permanent disadvantage and even its initial incidence is much smaller than commonly supposed. Since the grant of protection, however, the Tata Company has been steadily pursuing a policy of Indianisation. In September 1924, the total number of the covenanted staff was 229; on the 1st of June, 1926, the number was 161; on the 1st of April, 1933, it stood at 70; on the 1st of January, 1934, it was 64; since then the figure must have dropped still further.[30] This reduction has been effected in spite of a continuous increase in the output of steel. In 1924-25, the production was 248,000 tons, in 1937-38, it stood at 660,000 tons. Consequently, the incidence of the cost of covenanted employees has been rapidly falling for this reason as well. In 1927-28, it was Rs. 7.6 per ton; in 1932-33 it came down to Rs. 3.6; in 1937-38, it was 1.4. The process of Indianisation has not reduced the efficiency of the works in any way. This has been possible owing to the Company's efforts in imparting technical education in its own Technical Institute. The recruitments to the higher posts are necessarily few and depend upon the expiry of the contracts of the covenanted employees. Hence admission to the Institute for the "A" class is limited to the most qualified graduates of Universities.[31] The "B" and

[29] The Tariff Board (*Report*, 1924, p. 15) also stated that this was a temporary difficulty which would eventually disappear.

[30] Tariff Board (*Report*, 1934, pp. 83-84).

[31] Dr. Dey, *op. cit.*, p. 182, characteristically ascribes this limited number of apprentices to "the traditional aversion of Indian youths

"C" Class men are recruited in larger numbers. Since the establishment of the Institute and the Apprentice School (1932) the Steel Company has borne 73% of the total capital expenditure and 51% of the total recurring expenditure together making a grand-total of about Rs. 15 to 20 lakhs from its commencement in 1921. This expenditure by the Company on the training of engineers, foremen and apprentices must be regarded as a national investment, whose advantages will be a permanent entry in the balance-sheet of Protection.

The second criticism in regard to labour was that owing to the climatic factor (entailing enormous heat in the workshops near the furnaces), the imported labourers could not work steadily and had to be assisted by a larger number of Indian labourers. The Tariff Board in their 1927 Report, noted that "the Tata Iron and Steel Company employs in the manufacture of coke and pig iron over 70 per cent more men than it should by comparison with the Indian Iron and Steel Company".[32] Accordingly they tacitly recommended in 1927 that the Tata Company might reduce its labour force, adding that "difficulties might arise in giving effect to any further readjustment of the labour force in a period during which new plant on an extensive scale is to be brought into operation".[33] However, gradually the Company has succeeded

for manual work" owing to which "the results achieved so far have been disappointingly poor". It is time that at least Indian writers gave a decent burial to these official shibboleths. It was Dr. Dey's own view in 1928 (*vide* his article "Protection of the Steel Industry, 1927-28", in the *Indian Journal of Economics*, July 1928) that the steel industry had made appreciable progress "as evidenced by increase of output, improvement in the efficiency of labour (*sic*) reduction in the number of foreign hands (*sic*) and considerable reduction in works costs". Dr. Dey's prophecy (*op. cit.*, p. 183) that it would take 30 or 40 years for the steel manufacturer to overcome the handicap of labour has been falsified in less than 3 years of his writing his book. The Tariff Board (*Report*, 1934, pp. 83 ff.) recount the excellent progress made and add that "in the producing departments put under the direct charge of Indians the output has continued to increase".

[32] *Loc. cit.*, p. 25.

[33] *Ibid.*, p. 26. It is to be noted that in the subsequent years the Tata Company had to face a strike (1929) in enforcing the economies in labour

TABLE VII

*Cost of Labour Per Ton of Products, arranged by Departments**

	1923 -24	1924 -25	1925 -26	1926 -27	1927 -28	1928 -29	1929 -30	1930 -31	1931 -32	1932 -33	Jan. to June 1933.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Pig Iron	2·5	2·0	1·9	1·6	1·4	1·6	1·4	1·2	1·0	0·9	0·8
Ingots Open Hearth ...	5·6	5·4	5·2	5·0	4·9	5·0	5·0	4·5	4·1	3·9	3·9
Ingots Duplex	7·8	6·1	4·3	3·8	3·6	3·9	3·9	3·4	2·8	2·4	2·2
Old Blooming Mill ...	1·7	1·7	2·1	2·6	2·5	2·7	2·7	2·5	2·4	2·2	...
New Blooming Mill ...	2·3	1·8	1·5	1·3	1·1	1·2	1·1	1·0	1·0	0·8	0·7
Old 28-inch Mill ...	7·6	7·4	9·5	10·4	9·0	8·1	9·4	9·4	7·8	8·3	...
New 28-inch Mill ...	...	4·8	6·1	4·6	4·6	6·7	6·0	5·8	7·2	6·5	6·3
Old Bar Mills	11·6	14·1	14·4	14·6	14·2	16·2	19·8	15·3	14·6	13·9	17·6
Merchant Mill	...	8·0	6·6	6·1	5·0	5·7	5·1	5·2	4·7	4·6	4·4
Plate Mill	10·5	12·2	11·5	9·3	9·6	9·2	9·1	8·6	9·4	7·7	7·1
Sheet-bar and Billet Mill	3·0	2·1	1·2	1·2	1·2	1·2	1·1	0·8	0·8	0·8	0·8
Black Sheets	...	62·1	53·1	41·4	33·1	29·4	27·3	24·7	20·5	20·2	19·9
Galvanized Plain Sheets	...	27·5	17·8	13·6	13·0	8·8	9·0	6·1	5·9	4·8	4·4
Galvanized Corrugated Sheets	...	17·4	9·9	6·6	7·4	3·9	3·5	1·7	1·5	0·9	0·8
Sleepers	...	...	14·1	20·5	6·7	8·9	8·3	7·6	...	5·1	4·9

* Figures subsequent to 1933 not available.

in bringing down the number of workmen in relation to the output. The Tariff Board noted with satisfaction, in 1934, that reduction was effected. In 1926, the Board came to the conclusion that a total of 23,440 workmen should suffice for a production of 600,000 tons of finished steel per year. Owing to the depression, the output remained low, at 466,600 tons per annum in 1933, the average number of workmen employed, however, fell to 17,517, showing an output of 26.6 tons per workman, a result "better than was anticipated by the Board".[34] The progressive reduction of cost of labour per ton of products, arranged by departments, is given in the accompanying Table VII which shows what a tremendous improvement has taken place in the efficiency of labour. As the reduction in labour cost is accomplished in spite of higher wages being paid by the Company, no other conclusion is possible.

The following statement shows the proportion of wage cost to the total cost of production from 1929-30:—

suggested by the Board. This entailed a total loss of about Rs. 220 lakhs, which was brought to the notice of the Board by the Company in their representation. The Board, however, refused to take this into consideration in the further grant of protection on the ground that "a consideration of the losses due to a strike of workers" was not "directly relevant to a study of the working of a scheme of protection". (*Report*, 1934, p. 8.).

[34] *Report*, p. 125.

TABLE VIII

The Proportion of Wage Cost to Total Works Cost of Saleable Steel

Year	Total Cost of Production	Wage Cost*	Proportion of Column 3 to Column 2	Saleable Steel
1	2	3	4	5
	Rs. Lakhs	Rs. Lakhs	Per cent	Thousand tons
1929-30	410·3	151·2	37	412
1930-31	415·6	159·4	38	434
1931-32	351·1	137·5	39	450
1932-33	314·8	129·0	40	427
1933-34	350·5	134·8	39	531
1934-35	405·3	145·6	36	603
1935-36	426·5	153·3	36	646
1936-37	437·0	162·9	37	667

* Excluding the Town, Agrico, Construction, Sales, Bombay and Calcutta Offices.

The above Table (VIII) shows the progressive reduction in the labour cost of producing steel. This has been achieved it will be seen without reducing wages either as a proportion of total cost or as payment per head.

III

Special Circumstances

In their first Report (1924), the Tariff Board laid down the principle that the need for protection is measured by the difference between two prices, *viz.*:—

(*a*) The price at which steel is likely to be imported into India, and,

(*b*) The price at which the Indian manufacturer can sell at a reasonable profit.

On an examination of the probable course of selling prices it was recommended that the following specific duties should be levied:—

Steel	Rs. per ton
Structurals	30
Plates	30
Bars	40
Rails and Fish plates	40
Light rails, etc.	40
Black Sheets	30
Galvanized Sheets	45
Wrought Iron	
Angles, etc.	20
Common Bars	35

Besides these duties, the grant of bounties on the manufacture of medium and heavy rails and fish-plates was also recommended according to the following scale:—

	Rs. per ton
1924-25	32
1925-26	26
1926-27	20

These proposals were accepted by the Government and embodied in the Steel Protection Act of 1924.

In their 1924 Report, the Board admitted that the necessity for protection arose from several causes *not directly connected with the "infant-industries" argument*: (1) The enormous expansion of the heavy industries which took place during the war, with the consequent problem of "excess capacity"; (2) the establishment of thoroughly modern plants in the place of the old ones destroyed by war, in Belgium and France; (3) the general depreciation of the continental exchanges; (4) the intensification of competition due to contracting demand after 1920; and (5) some element of "dumping".[35] It was this concatenation of causes, which created

[35] It is interesting to note that the Board has generally fought shy of the word "dumping". I discuss the whole question at a later stage in this Chapter. It may suffice to quote here the words of the Board: "In the written and oral evidence we have taken, we have heard much of "dumping", but the use of this word does nothing to illuminate the subject. Unquestionably the British steel manufacturer has been selling steel at lower prices than he accepts from British purchasers,

difficulties for the Indian steel industry. This is an important conclusion because it substantiates my general view, to be fully stated later, that the protection granted in 1924 was not so much of the "infant industry" variety, but more of a temporary kind specially designed against the operation of *unnatural* competition. Not only were the causes of the Tata Company's difficulties wholly external to the Indian economy, however. A major industry in the country became involved in other complications over which it had little or no control and which had nothing to do with the question of industrial infancy as such: these were due to the coal and rail contracts of the Company. Exception has been taken to these contracts on the ground that they were ill-judged and uneconomical. The coal contracts provided that the price for coal should be the same as, or higher by eight annas a ton than, the price paid by the Railway Board. Since the

and probably Continental manufacturers follow the same practice, as the Indian manufacturer of pig iron certainly does. But we have received no evidence which suggests that any deliberate policy of cutting prices is being pursued with the object of killing the industry in India. The steel manufacturer, whether British or Continental, is striving for the highest price he can get and, if he accepts a low price, it is because he must endeavour to keep his works occupied even if that means sacrificing all profits. The lowest prices that have been touched are not remunerative and the evidence we have taken suggests that, when the price of the ordinary kinds of rolled steel in the United Kingdom is near vanishing point for most manufacturers. It is evident indeed from the published reports of many iron and steel making firms that, at the present level of prices, steel manufacture is carried on under the greatest difficulties, and that many orders are taken at rates which leave no profit at all or even involve a loss." If this is not "dumping" one fails to see what the Board themselves meant by "dumping". (*Cf. Report*, 1924, pp. 20-24). In 1926, the Tata Company again proposed anti-dumping legislation; however, the Board (*Report*, p. 71) disposed of that claim by pointing out that the English prices of rails for the foreign markets were always lower than those for the home (*i.e.*, English) market,—which was hardly a correct position. However, the theory on which the Board proceeded throughout was that "if the end in view is to secure to the domestic manufacturer a reasonable price, the causes which enabled the foreign manufacturer to send his steel into India at lower prices are really irrelevant". (*Report*, 1924, pp. 20-21).

Railway Board is by far the largest purchaser of coal in the market, there was undoubtedly a guarantee that the price would be low enough. However, these expectations were falsified during 1922-25 owing to the higher price paid by the Railway Board. This was, however, a temporary factor. The rail contracts, on the other hand, affected the position of the Company considerably. These contracts were as follows:

			Rs.	a.
B. N. Railway	1920-25	Rails	100	0
		Fish-plates ...	140	0
Palmer Railways (including B.B.C.I., S.M.R., B.N. & W.R., etc.)	1920-26	Rails	122	8
		Fish-plates ...	152	8
Railway Board	1920-27	Rails	130	0
		Fish-plates ...	160	0

Actually the market prices of rails and fish-plates rose above these figures, while the costs of production of Tata's were higher still. It is estimated that between 1920-22, the Company lost about Rs. 142 lakhs owing to this. While the Railway Board made certain concessions later on, the Company Railways insisted on their contracts. However, as the Board point out, "the Government is itself the proprietor of nearly all the railways with which the contracts were made, and in so far as the contracts have entailed loss to the Company, they have at any rate secured a very substantial gain to the taxpayer".[36]

It must appear, therefore, that the industry sought and received assistance by way of import duties at a critical juncture, when the industry was faced by unfair foreign competition, helped by depreciations and numerous other new factors showing an *unsettled condition* of the world trade in steel. The Tariff Board themselves were conscious of these peculiar and unnatural factors and at various places that the protection was being granted to enable the industry to tide over a difficult period.[37]

[36] *Report*, 1924, p. 60.
[37] *E.g.*, *Ibid.*, p. 62.

IV

Protection Against Dumping

Even after 1924, these same factors went on affecting the industry more and more severely. The continued depression in the world steel industry, the further depreciation of the Continental exchange (ranging between 25 to 75 per cent of pre-war parity) and, above all, the steady rise, artificially brought about in the rupee-ratio to 1s. 6d., resulted in a large decline in the price of imported steel and it soon became clear that the 1924 scheme was not affording adequate protection.[38] Accordingly, in response to the application of the industry, the Board had to propose general increases in the duties. However, though the Government accepted the need of additional protection as also the Tariff Board's estimate of the amount of protection required, they preferred the grant of bounties not exceeding Rs. 50 lakhs in the aggregate in any one year. Accordingly, bounties, at the rate of Rs. 20 per ton on 70 per cent of the weight of the steel ingots produced, subject to a maximum of Rs. 50 lakhs, were paid during 1924-25.

Sir Charles Innes, the then Finance Member, gave the following reasons for preferring bounties to import duties[39]:—

(*a*) that the imposition of additional duties would mean an "excessive burden" on all the consumers of steel, which was an article of common use and which was so essential to the railways, the mining industry, the port trusts and many other important industries;[40]

[38] It is surprising that the Board think that the effects of the depreciation of foreign exchanges or the rise of the rupee ratio were "temporary". This view, though held by many orthodox writers, has been exploded by modern theory and experience. It is true that, *in the long run*, costs (including) wages, must get adjusted to a new ratio, but the long run may be too long and, as Keynes once put it, "in the long run, we are all dead". To suggest that the industry could survive that length of time would be ridiculous.

[39] *Assembly Debates*, January 16, 1925.

[40] It was computed that the burden of the duties would be about Rs. 2 crores, while the benefit to the Company would be Rs. 50 lakhs only. The point, however, was missed, whether this burden fell upon the more

(*b*) that owing to accumulation of stocks in the hands of merchants, import duties would not raise prices of steel sufficiently for the Company to reap their full advantage; and

(*c*) that though in 1924, the bounty was opposed on financial grounds, the situation had changed materially since then.

It is rather surprising that the Finance Member should have spoken of an excessive burden on the consumer, when owing to the various factors, enumerated above, the prices of steel products had already fallen and the consumers had been already enjoying the advantages of the fall. Moreover, it is not clear, how either the stock position or the Tatas would be helped by allowing imports at low prices to flood the Indian market with the aid of depreciations.

In June 1925, the Board was again required to examine the question of protection, this time at the instance of the Government. After a careful forecast of future prices of steel and a re-examination of the fair selling price, the Board recommended a bounty of Rs. 18 per ton for the period of 18 months ending 31st March, 1927, subject to a maximum of Rs. 90 lakhs.[41] The Government, while accepting the finding of the Board that further assistance was necessary, reduced the bounty from Rs. 18 to Rs. 12 per ton and the maximum amount from Rs. 90 lakhs to Rs. 60 lakhs. The Board in this Report also had made its supplementary recommendations on the same grounds as those enumerated before, *viz.*, excess capacity of world steel plants, exchange "dumping", monopolistic discrimination of markets, and the high rupee exchange.

In the meantime, the industry developed in a healthy and stable way, under the shelter of protection. The Greater Extensions were completed by 1924; the Duplex process was fully adopted for manufacture in March 1924; and the new

able sections of the tax-paying public or otherwise. I personally think that Rs. 50 lakhs paid out of the present scheme of Indian taxation might not mean so small a burden on the tax-payers. If duties were levied, there would have been relief to the poorer tax-payers to that extent.

[41] Report, 1925, regarding the grant of supplementary protection to the Steel Industry.

rail mill, the merchant mill and the sheet mill were brought into operation within the next six months. The production of finished steel also increased by leaps and bounds.[42] The Tariff Board noted with pleasure that there had been a large reduction in works costs, in which the main factors were "the lower price of coal and the improved practice at the coke ovens, blast furnaces and open hearth furnaces".[43]

In 1927 the Tariff Board again noted: "It must also be remembered that the last three years (*i.e.*, 1924-27) have witnessed the greatest depression which has been experienced in the Steel industry for many years", and, after quoting the Commerce Member's remark that "the general principle was......that protection afforded should be the minimum required to tide the industry over this transitional period", pointed out that "the protection actually received by the Company has enabled it to survive a most difficult transitional period......".[44] These transitional aspects of protection were stressed by the Tariff Board Reports again and again and are to be carefully taken into account when we assess the real nature and significance of the steel protection.

Another important feature, introduced for the first time in 1927 by the Tariff Board and which is contrary to and inconsistent with the principle of Discriminating Protection, was the preferential treatment of British as against non-British or Continental steel. The Board found that the British prices for steel were considerably higher than the Continental prices in many lines of goods. In arriving at a decision to levy preferential duties the Board were guided by several considerations:—

(*a*) The assumption that British prices were stable and Continental prices unsteady and liable to fluctuations.

[42] See Table V footnote.

[43] *Report*, 1927, pp. 10-11. The works costs between 1923-24 and 1926 fell as follows:—Pig iron from Rs. 36 to Rs. 25 per ton; steel ingots from Rs. 71 to Rs. 51 per ton; rails and structurals from Rs. 121 to Rs. 85; bar mills from Rs. 132 to Rs. 106; and plates from Rs. 142 to Rs. 103. This meant an average fall of about 25 per cent in two or three years.

[44] *Report*, 1927, p. 16.

(*b*) The assumption that the British steel was synonymous with tested and standard steel and that the Continental steel was untested and generally inferior.

(*c*) The argument that a system of uniform duties, therefore, would penalise the users of standard steel involving an increase in the cost of rolling stock, railway bridges and other constructional work and thus raising the cost of irrigation schemes, municipal constructions, and general industrial development.

(*d*) The argument that a system of uniform duties based on the lower import prices would impose a heavier burden on the consumer of standard steel than would be imposed under a system of differential duties; and that it would result in the grant to the Indian industry and greater protection than is necessary.

The Board discussed six possible methods of granting protection and disposed of four of them as impracticable: (*i*) To impose different duties according to the quality of steel was impossible, owing to technical difficulties of testing steel at the customs offices. (*ii*) To impose uniform duties equal to the difference between the fair selling price and the higher of the foreign price (*i.e.*, the British price) and to pay a bounty equivalent to the difference between the higher and lower foreign prices was dismissed as impracticable, owing to the financial implications of bounties. (*iii*) To impose uniform duties at rates based on the Continental prices would, the Board said, lead to greater protection being granted to the Indian industry than was necessary and penalise the consumer of standard steel. (*iv*) To impose higher duties on "dumped" steel, assisted by depreciation of currencies, bounties, etc., was regarded as impolitic, as it was suggested that French steel could masquerade as steel coming from other countries. (*v*) To impose uniform duties on the basis of a weighted average of foreign prices was regarded as unfair to the consumer of British steel. (*vi*) The only alternative left, according to the Board, therefore, was the adoption of differential duties.

It is possible to agree with the Board only about methods (*i*) and (*ii*) and, perhaps, (*v*) also, though it must be said that the reasons for which the Board rejected "weighted average" uniform duties gave more weight to the welfare of consumers

of British steel rather than that of the Company, which would have had to meet the competition of *the low-price* (*i.e.*, *Continental*) *steel only* on any such plan. However, it does not appear that the Board's views were tenable regarding methods (*iii*), (*iv*) and (*vi*).

The Board admitted[45] that Rs. 7 or 10s. was a fair difference between the prices of tested and untested steel on the Continent. If that was so, the following large differences between the C. I. F. prices landed ex-duty per ton of British and Continental steel were inexplicable. The prices are the same as those quoted by the Board in assessing the scale of differential duties.

TABLE XI

	Fair selling prices per ton	C.I.F. ex-duty British	prices per ton Continental
1	2	3	4
	Rs.	Rs.	Rs.
Rails	118	105	...
Fish-plates ...	156	150	...
Structurals ...	120	104	86
Bars	129	108	90
Plates	133	105	92
Black sheets ...	183	153	122
Galvanised sheets	278	240	...
Sleepers	115	...	105

It will be noticed that the differences between British and Continental prices ranged between Rs. 13 to Rs. 23 per ton for various classes of steel and, therefore, were greater than the additional cost of making tested steel. The Tata Company as well as the British and Continental Steel manufacturers, must bear the same expenses in producing standard tested steel; in other words, the additional cost is common to all. If the consumer in India, for any special reasons, has a preference for standard steel, the advantage or disadvantage of satisfying that demand would be common to both Tata's and the British producers. One fails to understand how a

[45] *Report*, 1927, p. 53.

lower duty on British products on this account is helpful in determining the fair amount of protection. From Table XI above, it will appear that the fair selling prices for the products of the Tata Company were calculated with reference to finish steel in general. If, for special reasons, it was felt necessary to differentiate between tested and untested steel, the proper course would have been to calculate the additional cost of "testing" to Tata's and give protection on the basis of the lowest price of tested steel capable of being produced on the Continent. Instead of that, the Board put a premium on British inefficiency and on the basis of the confused notion of identification of tested with British steel allowed Imperial Preference to come in by the back-door of perverted logic. It is generally admitted that the technical efficiency of the British steel industry is considerably behind that of other countries.[46] Reliance upon obsolete plants, conservatism in regard to the adoption of new methods, lack of proper provision of depreciation and renewal, and, in recent years, excessive dependence upon import duties and protection,[47]

[46] The following statement appears in a British Government Report on the iron and steel industry submitted in 1928: "It is scarcely disputed that blast furnace practice in this country lags a good deal behind Continental and American practice". *Report of the Committee on Industries and Trade*, "Survey of Metal Industries", 1928, p. 28.

F. H. Wilcox (*Iron Age*, January 109, 1929) after a visit to Europe stated, "Visits abroad are convincing as to the advance the American blast furnace represents in construction, practice, and personnel over English and Continental plants".

J. L. Replogle (in *Steel*, September 4, 1930) stated that one of the principal causes for the British decline was "Ultra-conservatism in failing to keep abreast of the times in the installation of efficient manufacturing methods, and persisting in regarding obsolete plants as assets when in reality they are liabilities". Quoted by Taussig, *op. cit.*, p. 395.

[47] See *Economist*, December 17, 1938, pp. 606-07, when the above defects are admitted. The *Economist* remarks: "The tacit bargain struck between the industry and the public was that the public would pay rather higher prices for its steel for a period, if during that period the industry increased its efficiency sufficiently to produce cheap steel. But, in spite of all the money spent on technical re-equipment the movement of the price indices suggests that steel is tending, if anything, to fall still further behind". (*Ibid.*, p. 588.)

have been the characteristic features of the British industry. The result of the preference granted to the British steel has been that the Indian industry was not able to make full use of protection and while the prices were governed largely by the higher duty *plus* Continental prices of steel in general, the British producer was able to exploit the higher price ruling in the market by selling his dearer products under the shelter of preferences. In other words, the Indian consumer's burden, which according to the accepted principle of Discriminating Protection, should have been wholly utilised in fostering the local industry, was partly frittered away in buttressing the inefficiency of the British manufacturers. The Board, however, stoutly denied that their findings in favour of differential duties had any political implication or association with the doctrine of Imperial Preference. "Our enquiry" they said, "is confined to economic issues, and if a system of differential duties is desirable in the interests of India on economic grounds, for the adequate protection of Indian Industries, and for a fair adjustment of the burden involved, we do not feel debarred by political considerations from recommending it".[48] However, it is clear that the Board were hoodwinked into this species of "Imperial Preference by the back-door" by their own logic of establishing a parity between the "fair selling price" and the import price. The only anxiety of the Board was to give just enough protection to the Indian Steel industry to enable it to compete on equal terms with the foreigner. It was with this end in view that they proposed the differential duties in their scheme, which is detailed below:—

[48] *Report*, 1927, p. 58.

TABLE XII

	Basic duty (on all steel) Rs. per ton	Additional duty (on non-British steel) Rs. per ton
Rails	13	...
Fish-plates	6 (revenue duty)	...
Galvanised sheets	38	...
Sleepers	10	...
Structurals	19	11
Bars	26	11
Plates	20	16
Black sheets	35	24

It will be seen from the above Table (XII) that the basic duty on all steel was based mainly on the difference between the British and Indian prices,[49] while the additional duty was levied upon non-British, *i.e.*, Continental steel. Equalisation of prices is a correct method of calculating the necessary amount of protection, so long as the lowest foreign price is adhered to; if, however, equalisation with every foreign country's price is aimed at, it merely puts a premium on the inefficiency of inefficient foreign producers at the expense of the more efficient ones, of the local consumers and of the indigenous industry as well. This only means that the principle of differential duties, whether you name it Imperial Preference or anything else, is wholly incompatible with the doctrine of Discriminating Protection. There is no doubt that these duties were instrumental in somewhat delaying the rapid development of the Indian industry by reserving the Indian market to the British producers.[50]

As regards the anti-dumping duties asked for by the Company,[51] various kinds of dumping have always prevailed

[49] See Table XI above.

[50] In spite of this, Dr. Dey, (*op. cit.*, p. 225) finds it possible to say, like the Tariff Board, that "the balance of economic arguments was thus clearly in favour of a system of differential duties" and pours ridicule on the Nationalist party in the Legislature for opposing this "back-door" Imperial Preference.

[51] In their Representation; pp. 16 ff. and pp. 46-49.

in the steel trade and their extents and occasions differ in each case. These varieties may be enumerated: (*a*) ordinary dumping; (*b*) exchange dumping; (*c*) sales dumping; (*d*) freights dumping; (*e*) bounty dumping and (*f*) rebate dumping. The Company proved that some of these types of dumping were actually being practised not only by the Continental producers but also by the British producers. Yet the Board refused to make any allowance for the dumping factor on the ground that the Continental steel could masquerade under a different origin for export purposes. This difficulty, however, was brushed aside in the case of the differential duties by saying that "the gap between British and Continental prices has now narrowed considerably", and that there was "less inducement for Continental Steel from British ports !"

V

Imperial Preference

Tariff changes between 1927 and 1934 were not of any moment and the revenue duty on imported pig iron also was retained. The progress of the Indian industry was reviewed from time to time by the Tariff Board in connection with enquiries in relation to wire and nail, tinplate and galvanised sheets sections. The most significant development, which took place during this period, was the Ottawa Trade Agreement (Supplementary) of 1932. The way for "Empire Free Trade" was already paved by the Tariff Board in 1927, as we have seen above. The Assembly objected to the introduction of this feature in our system of protection, but the Protection Act, being a money bill, could only be initiated by the Government, and if the Assembly carried the objection to its logical conclusion, the Government would withdraw the entire bill, and even the limited amount of protection offered to the steel industry might be quashed. On the principle, therefore, that something was better than nothing the Assembly had to acquiesce in the 1927 measure. That was however, the thin end of the wedge and the adherents of Imperial Preference soon prepared themselves for fresh conquests. In 1930, the preference principle was surreptitiously introduced in the cotton textile protection measures. The

result of these concessions by the Assembly was that Imperial Preference soon became a sort of permanent appendage to our Fiscal Policy. Sir Atul Chatterjee in his opening speech at the Ottawa Conference (July 21, 1932) said, "Theoretically, it might seem that preference in the case of protective duties would be excluded altogether, but practically the result has been different. One of the most interesting things (*sic*) about the Indian system of protection is that it has led directly to what has been in effect, if not in intention, a preference for Empire goods. In two very important cases, iron and steel and cotton piece-goods, it has been found that the imposition of a lower rate of duty on goods made in the United Kingdom is entirely consistent with India's interests. My colleagues and I hope that an examination on similar lines of other protected industries may lead to a solution which will be in the interests of both India and of other parts of the Commonwealth".[52] This theory that Imperial Preference is not inconsistent with our fiscal policy of Discriminating Protection was elsewhere stated by the Ottawa Delegation, in these words: "The protection afforded to Indian industries has not been in any way impaired and India retains complete freedom to shape her tariff policy in the manner she thinks best. The provision in the Agreement which makes it subject to denunciation at six months' notice preserves complete liberty to a new Government in India to make its own decisions and the provision for variation removes any fear that the Agreement might operate as a bar to India's industrial progress".[53] We know of the subsequent history of the Ottawa Pact too well to put much value on these specious utterances. However, from the viewpoint of fiscal policy there is no doubt that the Ottawa spirit has been harmful to the development of Indian industries. How the two principles could be regarded as mutually consistent passes one's comprehension: to the extent that British manufacturers are allowed access to the Indian market at preferential rates of duties, they must work to the detriment of the local indus-

[52] *Report of the Ottawa Delegation*, p. 56.
[53] *Ibid.*, para 102.

tries; moreover, the consumer's burden, which should be wholly employed in the development of indigenous productive capacity, must be misapplied in helping the British industries. We are concerned, however, in this place with the iron and steel industry's share of Ottawa's injury.

The arrangement regarding the so-called "Industrial Co-operation" between Tata's and British producers, was based upon the provisional understanding arrived at between the Indian Delegation and the British Delegation at Ottawa. It is important to note that the scheme did not originate with the Tata Company but with the Government who asked them "to decide whether it would be possible to base on the scheme laid before them an arrangement which would be satisfactory to the Company".[54] In accordance with the conclusions arrived at by the Ottawa Delegation, the import duty on galvanised sheets imported from non-British sources was fixed at Rs. 83 per ton, while that on sheets imported from Great Britain was reduced to Rs. 53 per ton if the sheets were made of non-Indian steel, and Rs. 30 if made of Indian steel. Under the agreement between the Company and the British manufacturers, the latter were to use Indian steel as far as possible for the manufacture of galvanised sheets, subject to a monthly maximum, and the tonnage of sheets exported to India from Great Britain was to be regulated according to the Company's estimate of the Indian demand. The agreement was to expire on March 31, 1934, in view of the Tariff Board enquiry in that year. A further outcome of the Ottawa Conference was the decision by the United Kingdom to continue the right of free entry for Indian pig iron and steel.

The Agreement between the Company and the British manufacturers according to which the Indian industry sent sheet bars to the United Kingdom to be converted into galvanised sheets was, on the face of it, contrary to the spirit of Protection. That the raw material should be sent abroad by the Company to be finished into the final product, though

[54] *Vide* Speech of the Chairman, Tata Iron and Steel Co., 23rd August, 1933, at its annual general meeting.

perhaps profitable to the Company itself, was a tacit admission that the Tata Company could not accomplish the conversion more or as cheaply. The main purpose for which protection had been granted was that the Indian industry should develop itself fully on the basis of the consumer's burden. It was obviously a contradiction of the protective principle that the benefits of the consumer's burden should be frittered away in enabling the British industry to set its house in order and in helping the Company itself to make profits—that was clearly a side-tracking of the main issue and an irrelevance, which was uneconomical and harmful to India's own interests. The Tariff Board of 1933, therefore, were quite right in disapproving of the Agreement and giving a verdict against it. They observed: "Now the circumstances in the steel trade which led to the Ottawa Agreement have changed considerably since 1932. The justification for the *prima facie* uneconomic procedure of sending steel across the world to be converted and returned in the shape of finished goods was the need of finding an outlet for the Indian material at a time when the imposition of a tariff in the United Kingdom was shutting out the supply of Continental sheet bar. The need of the Indian industry for this particular outlet for its steel (we are not referring now to the export of surplus pig iron) no longer exists to the same extent. The Tata Company has greatly extended its capacity for the production of sheets, and in the growing re-rolling industry it has ready to hand another outlet for its production of steel......but a renewal of the Agreement in its present form will be impracticable".[55]

VI

Recent Developments

The last enquiry of the Tariff Board in 1933 revealed an all-round progress of the industry and practically on every page of their Report, the Board had something or other to say in praise of the industry. The policy of protection adopted,

[55] *Report*, 1934, p. 20.

halting and mutilated though it was, owing to the measures of preference and the scores of obstacles in the way of the industry, had vindicated itself. The so-called "prize-boy"[56] of Protectionism had won his laurels and justified the munificence of the donors. The Board made a thorough *ab initio* enquiry into the progress made by the industry during 1927-1933. The principal indicators of progress noted by the Board were as under:—

(i) *The share of the market obtained*—In 1927-28, the Company's share of the Indian market was 30 per cent, in 1932-33, in spite of a general fall in demand, the proportion rose to 72 per cent; that is to say, the whole of the fall in demand was borne by imported steel. The works maintained an output of 75 per cent of capacity. "Few steel Industries in the world", said the Board, "have been able to maintain such an output".[57]

(ii) *Reduction in works costs*—The Board quoted figures[58] for reduction in costs between August 1926 and January-June 1933 and expressed satisfaction that "the present costs are materially below those predicted by the Board in 1926". They took due note of the fact that the cost of coal and spelter had fallen, but remarked: "If the Board had foreseen the remarkable fall in price of coal and spelter which has taken place, their estimate would have been as shown in the third column (Table VIII of the *Report*, on p. 29) of figures and in this case the present costs would still be lower than the esti-

[56] *Pace*, Dr. Dey: "The Indian steel industry has been veritably the prize-boy of the Government and the Legislature of India ever since their adoption of the policy of protection in 1923". (*Op. cit.*, p. 185). The repeated changes which had to be made in the protection to steel between 1924 and 1927 do create an impression of undue favouritism; but in view of the peculiar circumstances, under which the industry was called upon to produce "results", they must appear to be quite necessary. It would be unfair, however, to attribute favouritism to the Government and the Legislature in this connexion.

[57] *Report*, 1934, p. 12. The figures for other countries producing steel, for that year, were France, 57 per cent; Germany, 35 per cent; U. S. A., 24 per cent.; U. K., 54 per cent; Belgium, 68 per cent; of their respective capacities.

[58] *Ibid.*, p. 29. See Table XV for works costs below.

mates except in the case of rails and fishplates", and added that "In view of all the facts, it seems clear that the *improvement in the efficiency of the works which was anticipated by the Board* in 1926, has been fully realised". (Italics mine.) The Board further analysed the various items and noted the fact that the consumption of coal had fallen from 4.09 tons per ton of finished steel to 2.87 tons in 1932-33. The Board also noted that, although the total labour cost gave a figure of Rs. 27·2 per ton as compared to their own estimate of Rs. 24·7 per ton, the output per employee was greater than was anticipated and the increase was due merely to higher rates of wages being paid than were anticipated.[59]

(iii) The third most important feature noted by them was the fact that the capital expenditure since 1926 on the development of plant, etc., amounting to more than Rs. 2⅗ crores was wholly met from the annual allocations to depreciation and that the efficiency of the plant was fully maintained.[60] The Board answered in detail criticism levelled against their valuation methods and took a broad and sane view of the purpose of depreciation funds:—"To sum up, the depreciation allowed is calculated on the replacement cost of the plant required for the estimated output. This is a constant figure and, consequently the depreciation required can most conveniently be calculated as a constant figure......We are aware that the inclusion of the annual allocation of Rs. 78 lakhs in the protective scheme has enabled the Tata Iron and Steel Company to accumulate reserves which have been extremely useful to the Company in the general financing of the industry. We have considered this aspect of the question with great care and we have come to the conclusion that we need not insist on any particular method of accounting for the depreciation fund;......we see nothing improper in the investment of such funds in the industry itself, in which the management may see their way to earn a higher return than they could outside."[61] At a time, when owing to continuous changes in the technique

[59] *Ibid.*, pp. 30 ff.
[60] *Ibid.*, pp. 37 ff.
[61] *Ibid.*, p. 41.

of production machinery was getting obsolete in the wider sense of depreciation, it would be unwise to insist on a hard-and-fast system of allocation of the depreciation funds. The Board, therefore, took a correct and dynamic view of the matter.

(iv) Regarding technical equipment and efficiency, the Board's general view was as follows:—"Although mention has been made of several cases in which the equipment of the Tata Company's works falls short of the best attainable efficiency, it should not be thought that the works is inefficient as compared with other works abroad of similar age. Doubtless a few works on the Continent and in America, which have been entirely planned and built since the war are better equipped but it would probably be difficult to find a works dating back to the pre-war period with which the Tata Company's works does not compare favourably". The newly relined blast-furnaces blown in 1932-33 and producing, on the average, 1,000 tons of iron per day, the Blooming Mill, the New 28″ Mill, the Merchant Mill, the Sheet Mills (which were up-to-date and probably in advance of any sheet mills in England or Europe) and other sections showed vast improvement in equipment and efficiency. It may be noted that since the Board reported the Company has not rested on its oars but continued to renovate and modernise its plant.[62]

The industry had gone through a most troublesome period during its career, in the years intervening between the 1926 and 1933 Tariff Board enquiries. Not only did the

[62] The Blast Furnace Gas-clearing and the Coal-mixing Bunkers were ordered in 1933 and commenced operation in 1934-35. The second unit of the Sheet Mills was completed in 1934 and was brought into operation after March 1935. The regular production of high-tensile steel was commenced in 1934. The new Sulphuric Acid plant commenced operation in 1935. A Normalising Plant was installed at the Foundry in 1935. There was an increase in the output of coke due to the operation of a new battery of Coke Ovens which commenced work in December 1936. An Electric Furnace was put into operation in 1936 for the production of small steel castings. A new Power Plant was completed in 1937-38. The improvements and extensions are continually going on from year to year; and all these are being effected without any recourse to new borrowing or new capital flotation.

depression hit the iron and steel trade of the world, as a whole, but it led to a world scramble for markets involving dumping of various types. The situation was made worse by the depreciation of exchanges after 1931 in some of the Continental countries. The official fixation of the rupee ratio at 18s. also had its influence upon the course of the Indian industry, because that meant an exchange advantage of about 12½ per cent not only to the British producers of steel but also to the Continental producers, whose currencies were consequently reduced in their rupee value to the same extent. The Tata Works being founded in 1907, were naturally based on 16d. expectations and the costs of the industry were pitched high throughout the subsequent period in consequence. Even if we begin from the period of protection, we notice that the *de facto* stabilisation of the ratio at 18d. was brought about in the latter part of 1924. It is wrong economics to say that the effects of exchange variations of this kind are only temporary. It is true that some of the costs must fall *pari passu* with the rise in exchange, but others may not get adjusted for years and the sum-total of disadvantage, therefore, must remain. The 1926 Enquiry made allowance for the fact of depreciation of foreign currencies, the appreciation of the rupee ratio, and dumping, but in an indirect way, *i.e.*, by equalising fair selling prices and import prices. However, the Board threw the responsibility of overcoming these obstacles upon the industry itself by reduction of costs and increase of output and refused in 1933 to make allowance for the above factors again. This means that the industry was forced to adjust and adapt itself as best as it could to the costs dictated by the Tariff Board within the period laid down. Even when in 1934, therefore, the measure of protection was whittled down further, the industry *still* suffered from the exchange disadvantages. If it were not for these disadvantages, in all probability the industry could have fought its way without any assistance from the Government whatsoever.

However, exchange dumping, monopolistic competition and the unnatural ratio were not the only causes of the special difficulties created by external events which necessitated the protection. There were other hindrances to the development of the steel industry, which would not have arisen in an in-

dependent country, managing its own commercial affairs and policy. If we examine the transport costs of the industry, it will appear that the railway freight policy of the Government as well as the Railway Companies has affected the industry's costs most seriously. The inefficiency of the Indian railway system and its step-motherly treatment of Indian industry and commerce are not political shibboleths but admitted facts. In America and Europe, railway freights (both on raw materials and finished products) have been generally helpful to industrial development and there has been a co-operative effort at integration of interests aiming at mutual benefit.[63] In India, on the other hand, whether in the carriage of raw materials or of the finished product of the iron and steel industry, the railway freight policy has been anything but sympathetic. The freight charges have been increased from time to time by the E.I.R. and the B.N.R. both of which being monopolistic in their control of transport from Tatanagar to the market and *vice versa*, have exploited the situation wholly with a view to their own profits. What is more, owing to the differential rates for internal and foreign traffic, the area of freight disadvantage to the Company has been made larger than it would have been if such a policy were not followed. The Tariff Board has merely noted and registered the increases in freights and made allowance for such increases in the "fair selling prices".[64] This has necessarily

[63] Professor Taussig comments thus on this unity of purpose: "The history of the American iron trade after 1870 thus came to be in no small part a history of transportation. The cheap carriage of ore and coal was the indispensable condition of the smelting of the one by the other......The perfecting of transportation has been the most remarkable of the mechanical triumphs of the United States......At either end (of the journey) the railway has been raised to the maximum efficiency for the rapid and economical carriage of bulky freight". (*Op. cit.*, pp. 128-129).

[64] The Board estimated in 1934 that the increase in costs due to higher railway charges made by the B. N. R. in 1933 alone were about Rs. 3 per ton (*vide* p. 35). Elsewhere (p. 46) they noted that the company had to sell a large proportion of its output in freight-disadvantage areas than was anticipated in 1926. The increase in the B. N. R. rates involved a total *additional* expenditure to the Company of Rs. 22½ lakhs to Rs. 27 lakhs per annum. The E. I. R. also caused an additional

inflated the measure of protection apparently accorded to the industry, though on the face of it it must be clear that the protection would have been considerably less, if the freights were charged with due regard to the interests of Indian industries. Contrast the situation of European concerns which are the main competitors of the Indian industry. For them, not only are there often special railway and shipping tariffs enabling them to achieve what is called "freight dumping" but a close unification of policy helpful on all occasions. In India, on the other hand, there is a deplorable divorce between the railway and industrial policies. The Tariff Board said in 1934: "Owing to the high quality of the ore and the low cost at which this and the necessary coal is mined, the balance is in favour of the Tata Company at present but, this advantage could be seriously diminished or wiped out by an increase in the transportation charges, which are already an important item in the costs".[65] Unfortunately, however, neither the Board nor the Government has taken any notice of the serious menace to the iron and steel industry caused by the railway freight policy. At all events, so far as the justification of protection is concerned, the fact remains that railway freights have necessitated a higher measure of protection.

burden of Rs. 12 to 16 lakhs per annum. The Board, however, merely contented themselves by saying rather unfairly (to the Company which had sacrificed its profits year after year) that the protection suggested by them in their *Report* would still leave a sufficient margin of surplus. (See pp. 70 ff.) The Chairman of the Tata Company in his speech at the Annual Meeting on September 28, 1934, observed: "*But for these increases in freights, we should have been content with a lower scale of protection*, and I trust the general public will realise that in part at least the benefit of the new rates of protection will not remain but will be passed on to the Railways in the form of higher freights payments. These increased freights amount to over Rs. 40 lakhs per year. Without wishing in this place to challenge the equity or otherwise of these revised rates, I wish to point out that they raise issues which are of importance to industries throughout India". (Italics mine.)

[65] *Report*, 1934, p. 72. The Board also infer that in foreign countries, transportation charges very largely decide the cheapness or costliness of steel production.

Coming to the recommendations of the Tariff Board, they based these on the following conclusions:—

(*a*) First, on articles sold in direct competition with British imports, either no protective duties were required at all or if any were required, the rates were lower than the normal rates of revenue.

(*b*) Secondly, the extent of protection enjoyed by the Company would be conditioned by the proportions in which tested and untested steel were in demand: If the demand for tested steel revives and attains normal proportions, the amount of protection would automatically diminish. It may be noted that in subsequent years the demand for tested steel did increase at the expense of untested, which shows (*i*) that the Indian industry did not derive so much protection as expected, and (*ii*) that the differential duties were such as could have brought about no other result but the preference of the market for tested steel, in which the U. K. manufacturers could get some chance of disposing of their products, owing to their privileged position regarding steel standards.

(*c*) Thirdly, the protection scheme was designed mainly against the Continental steel organization which made sporadic changes in prices and attempted to undersell in the Indian market on the basis of "indeterminate and often uneconomic prices". To this extent, they, therefore, agreed that the new scheme proposed was "in the nature of an anti-dumping provision rather than as a measure of substantive protection." The estimated[66] duties, therefore, were designed so as to

[66] The duties estimated were as under:—

	Ex-duty Import Price Rs. per ton	Fair selling Price Rs. per ton	Duty required Rs. per ton
Structurals—			
Rails	113	103	nil
Fish-plates	151	141	nil

ensure to the Indian industry "the amounts of overhead charges and profit", i.e., so as to equalise the *primary* costs of Tata's with the import prices of the Continental producers.

However, in the final shaping of their proposals, the Board allowed considerations other than those strictly relating to Protection to influence their recommendations.[67] It is rather an interesting question whether a Tariff Board, which was required by its constitution and policy, (as laid down in the Assembly Resolution of February 16, 1923 and in paragraph 97 of the Report of the Fiscal Commission), and which applied these principles and formulae rigorously, in every case was justified in giving the British manufacturer "a definite advantage consistently (?) with the interests of the Indian industry", and in stating that their object in doing so was "to maintain as far as is now possible the principle of reciprocity underlying the Ottawa Agreement".[68] They should have left this manipulation of policy to the Finance and Commerce Departments of the Government of India. As regards the consistency of Imperial Preference with Discriminating Protection, I have discussed

Structurals—			
(1) U. K. (Tested) ..	113	111	nil
(2) Continental (Untested)	64	107	43
Bars—			
(1) U. K. (Tested) ...	96	106	10
(2) Continental (Untested)	97	106	39
Plates—			
(1) U. K. (Tested) ..	114	110	nil
(2) Continental (Untested)	84	109	25
Semis—	64	59	nil
Black Sheets—			
(1) U. K. (Tested) ...	119	130	11
(2) Continental (Untested)	97	129	32
Galvanised Sheets—			
(1) U. K. (Tested) ...	160	170	10
(2) Continental (Untested)	130	170	40
Sleepers—	86	87	nil

[67] *Report*, 1934, pp. 58-9.
[68] *Ibid.*, p. 62.

this in the previous section, and elsewhere.

The scheme of protection was also marred by another feature[69] which was suggested by the Board in their *Report*, *viz.*, the imposition of excise as an alternative source of taxation. "The general question" they said, "of replacing by some other source of taxation the customs revenue lost to Government by reason of the policy of protection is one which the country must be prepared to face sooner or later." Accordingly they recommended that if the Government considered it necessary, they might levy a revenue duty on tested structural and plates either wholly as an import duty or, partly as an import duty and partly as an excise duty; *i.e.*, the recommendation was for an excise duty accompanied by a countervailing import duty. The excise duty was levied by the Government, on this plan in November 1934; the rates were Rs. 4 per ton on all steel ingots produced in India for the excise duty, and Rs. 5-1-3 per ton added to the import duty on all protected steel imports as a countervailing measure, except in the case of billets (on which the countervailing duty is Rs. 4). As regards the staple duties, at the present time, duties on British steel are only 10 per cent *ad valorem*, and those on non-British steel range between Rs. 25 and Rs. 43 per ton.

VII

Indicators of Progress

The whittling down of protection and the levying of the excise duty would have led to a comparative decline of the Indian steel industry, especially after its previous period of trouble and travail,—including the trade depression, the reduced railway demand for rails and fishplates, the increased railway freights, the Continental dumpings of steel products, and, last but not least, the labour strike, which caused enormous losses to the Company and set back the clock of

[69] The new practice of levying excise and countervailing import duties which has been adopted by the Government of India is a curious example of Government's revenue needs dominating our fiscal policy.

TABLE XIII

Landed Prices Without Duty Of Steel Materials

	Tariff Board Prices January-August 1933		1934-35		1935-36		1936-37		1937-38	
	British	Continental	British	Continental	British	Continental	British	Continental	British	Continental
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Structurals	113	64	111·5	75·2	111.3	70·7	123·4	85·0	165·3	145·1
Bars	96	67	109·1	76·3	107·2	70·1	122·0	87·6	171·0	152·1
Plates	114	84	114·7	95·7	112·2	88·7	127·0	115·3	169·5	171·8
Black Sheets	119	97	134·5	101·0	140·0	94·2	157·1	131·7	224·2	180·1
Galvanised Sheets 24 Gauge ...	160	130	...	...	...	...	...	...	...	...
(*a*) Corrugated	...	...	170·0	...	169·5	133·7	192·3	...	286·8	...
(*b*) Plain	...	...	176·7	...	176·2	140·4	199·0	...	293·5	...

progress. However, the international situation improved considerably after 1934, with the returning tide of recovery, there were signs of normality in business. The reconstitution of the Continental Steel Cartel in 1933 led the way to a control of steel prices and later on, both owing to increased trade activity and owing to the armaments programmes of various countries, the prices began to soar.

It will be seen from the above Table (XIII) that the prices of imported steel, *ex-duty*, were much higher in the years 1935-36, 1936-37 and 1937-38. It was this factor that has helped the Company to recoup its position in recent years. The year 1935-36, however, was the first in which the Company had to bear the full effect of:—

(*a*) the excise duty on the production of steel ingots;

(*b*) the reduction of the contract price of rails to a figure below the price of imported rails *ex-duty*; and

(*c*) the increase in the freights charged by the E.I.R. and the B.N.R. for the carriage of the raw materials and finished steel.

Other factors affecting the costs and profits position of the Company were:—

(*a*) the increased wages and bonuses paid to labour after 1929;[70]

(*b*) the rise in the price of coal after 1933.[71] Moreover, a considerable portion of the deliveries of the Tata Company during these years was against sales which had been arranged before the rise of prices had set in, while about one-third of the Company's steel has been sold under long-term contracts under which an exploitation of the rise in prices is impossible. This applies, for example, to rails and fishplates, to a larger proportion of the output of billets and to the sales

[70] The total amounts of wages paid in recent years have been as follows: In 1934-35, Rs. 145·6 lakhs, incidence per ton being Rs. 24·1; in 1935-36, Rs. 153·3 lakhs, incidence being Rs. 23·7 per ton; in 1936-37, Rs. 162·9 lakhs, incidence being Rs. 24·4 per ton; in 1937-38, Rs. 169·3 lakhs, incidence being Rs. 25·6. See also Table VIII *supra*.

[71] Cf. the annual speech of the Chairman of the Tata Company, on the 25th May, 1937.

of tin-bar as also to engineering steel.[72]

The profits of the Company, however, were largely due to continuous reduction of costs and by increased output brought about by more and more efficient methods of production. For many years, the Tata Company has been pursuing, as we have seen, a steady policy of improving its works equipment and of strengthening its commercial organisation. This can be seen from the following Table (XIV).

TABLE XIV

Capital Expenditure

	Rs. lakhs A*	Rs. lakhs B*	Rs. lakhs C*
1934-35	73·0	0·7	73·7
1935-36	116·0	0·8	116·8
1936-37	90·0	1·9	91·9
1937-38	103·0	6·7	109·7

(A)* Works, Town , Ore mines and Quarries.
(B)* Collieries.
(C)* Total

The reduction of works costs has been achieved at a much more rapid rate than anticipated by the Tariff Board, as will be seen from the accompanying Table XV.

[72] The coal consumption of the Company during these years and prices of coal were as under:—

	Tons (000)	Rs. lakhs	Price per ton in Rs.
1934-35	1,493	86·4	5 12 6
1935-36	1,517	87·3	5 12 4
1936-37	1,562	93·8	6 0 10
1937-38	1,705	104·2	6 2 0

The higher price for coal was partly offset by reduced consumption of coal per ton of steel.

TABLE XV

Works Costs: Annual average arranged by Products

(Rs. per ton)

	1925-26 Rs.	1926-27 Rs.	1927-28 Rs.	1928-29 Rs.	1929-30 Rs.	1930-31 Rs.	1931-32 Rs.	1932-33 Rs.	Jan. to June 1933 Rs.
Rails	99·2	80·4	74·4	86·5	82·2	77·8	74·6	67·8	64·8
Fish-plates	125·2	124·9	121·4	127·0	136·8	123·5	103·3	89·1	93·2
Structural Section	112·7	108·2	97·1	96·7	105·5	91·2	76·9	69·3	65·9
Bars	109·7	101·7	89·8	90·1	89·0	86·4	73·4	68·9	65·1
Plates	124·3	103·3	90·4	94·4	94·7	89·3	82·7	74·1	70·0
Black Sheets	181·2	164·0	136·3	131·6	128·2	122·6	105·7	99·5	95·8
Galvanised Sheets	311·3	269·4	234·9	210·4	207·8	182·7	148·1	134·5	126·5
Sleepers	...	...	80·7	84·1	87·1	84·2	...	61·4	60·1
Tin-bars	77·8	69·5	63·7	67·2	65·5	62·6	55·7	51·3	49·2
Other Semis	113·0	112·1	104·7	104·5	72·4	64·6	56·0	51·3	49·1

The Table (XV) is available up to the year 1933 only. For subsequent years, available figures can be conveniently presented in the form of index numbers (Table XVI). The average for 1934-35 has been taken to represent the base figure 100.

TABLE XVI

Indices of Works Costs

(Average for 1932-33, 1933-34 and 1934-35=100)

	Average 1932-35	1935-36	1936-37	1937-38
Heavy rails	100	80·3	87·2	87·3
Fish-plates	100	99·4	97·4	95·3
Structurals	100	89·7	91·4	88·3
Bars and Light Rails ...	100	87·4	92·8	90·1
Plates	100	93·3	92·8	86·3
Tinbars	100	87·8	91·7	89·4
Black Sheets	100	82·3	84·6	75·2
Galvanised Sheets ...	100	83·7	85·3	94·4
Sleepers	100	97·0	97·7	112·7
Coal price at works ...	100	103·6	107·1	108·9

From the above indices of works costs, it will appear that owing to higher prices of coal (and spelter) some of the costs have not fallen, but that a majority of items register a falling trend. Owing to several causes, such as the low price of coal, etc., the works costs fell much more rapidly up to 1933. The year 1935-36 bring the first complete year under the new scale of protection for the industry, the comparative movement has special significance from that year onwards.

VIII

Profits and Dividends

The following statement shows the total benefit derived by the Company on account of protection:—

TABLE XVII

Year	Benefit* due to Protection	Bounty Rs. lakhs	Total Rs. lakhs
1924-25	18·7	65·2	83·9
1925-26	36·2	70·9	107·1
1926-27	46·9	72·6	119·5
1927-28	40·3	...	40·3
1928-29	20·0	...	20·0
1929-30	48·1	...	48·1
1930-31	58·0	...	58·0
1931-32	84·2	...	84·2
1932-33	94·0	...	94·0
1933-34	100·6	...	100·6
1934-35	92·8	...	92·8
1935-36	77·7	...	77·7
1936-37	61·3	...	61·3
1937-38	21·6	...	21·6
Total ...	800·4	208·7	1009·1
Less Excise paid			
1934-35 ... ... 14·7			
1935-36 ... ... 35·2			
1936-37 ... ... 34·1			
1937-38 ... ... 35·3			119·3
		Net Total ..	889·8

*"Benefit" is calculated by reference to actual production multiplied by the measure of protection.

The net total of Rs. 889·8 lakhs gives an average annual benefit of Rs. 57·3 lakhs only. This works out at an average of between Rs. 9 to Rs. 11 per ton of steel produced only. In view of the nature of protection and the peculiar circumstances under which it was granted,—*viz.*, dumping, exchange depreciation, world excess capacity of steel production and depression,—it cannot be said that this was an undue burden on the consumer. The consumer had merely to forgo a part only of the unnatural advantage which was sought to be conferred on him by foreign producers anxious to dispose of their surplus steel in the market. Leaving aside the question of counteracting the harmful influence of and illegitimate benefits due to dumping, exchange depreciation abroad, etc., *even if the Government had taken steps to keep the*

rupee ratio at its customary level at which business expectations were settled down in India, the average of Rs. 9 to Rs. 11 of benefit per ton of steel would have been rendered unnecessary by this single factor alone, seeing that the overvaluation of the rupee conferred upon the foreign steel manufacturers a 12½ per cent advantage, and upon the Indian producers a disadvantage to the same extent. In fact, however, the other disadvantages enumerated above were of a far more serious magnitude.

Turning to the profits position of the Tata Company, it must be remembered that the Company has now embarked upon a period of comparative prosperity which has reached its peak in 1937-38, owing mainly to the international situation and rising steel prices. This is apt to obscure the real position and lead to exaggerated ideas about profits. The following statement shows the profits earned by the Company since protection was granted. At the bottom of the Table (XVIII), average annual dividend earned (*a*) since the year 1924-25 and (*b*) since the inception of the Company are also given:—

TABLE XVIII

Dividends paid by Tata's

	First Preference (Rs. 150) Rs. a. p.	Second Preference (Rs. 100) Rs. a. p.	Ordinary (Rs. 75) Rs. a. p.	Deferred (Rs. 30) Rs. a. p.
1924-25	9 0 0	...	...	...
1925-26	18 0 0	3 12 4	...	...
1926-27	9 0 0	8 0 4	1 0 0	...
1927-28	9 0 0	7 8 0	...	...
1928-29	11 0 0	...	...	...
1929-30	18 0 0	...	...	...
1930-31	9 0 0	2 8 0	...	...
1931-32	9 0 0	1 0 0	...	...
1932-33	9 0 0	5 0 0	...	...
1933-34	9 0 0	15 0 0	...	...
1934-35	9 0 0	22 8 0	...	...
1935-36	9 0 0	17 8 0	6 0 0	7 8 0
1936-37	9 0 0	15 2 0	10 0 0	36 3 6
1937-38	9 0 0	20 10 0	15 8 0	75 11 3
1938-39	9 0 0	22 2 0	18 0 0	93 10 5
1939-40	9 0 0	7 8 0	25 0 0	143 14 7
(*a*) Annual average since 1924-25 ...	6·4%	8·5%	3·1%	3·7%*
(*b*) Annual average since inception and up to 31st March 1940 ..	6%	7½%	6·23%	10·46%

* The percentages for the First and Second Preference Shares include also the arrear dividends paid on them.

The above Table (XVIII) clearly shows that the average annual profit per share has not been very high at all. Owing to the recent speculative activity in Tata shares (especially in the Deferred shares) and the high dividends paid thereon, an impression has been created that the Tata Company is exploiting the consumer and reaping unduly high profits. The impression is due to misunderstanding the nature of deferred shares. *These shares have been starved for years.* In any case the dividends *in the protection period* have been quite moderate. During the last war, the shareholders got generally high dividends, but then it was not due to protection but to the peculiar circumstances created by the war. The boom in Indian steel shares in recent years has also been

due very largely to world causes and not due to the benefits of protection.

IX

Contributions to Government Revenue

While the Company derived very moderate dividends over the period, as a whole, the net revenue of the Government due to protection has been quite considerable.

TABLE XIX

Additional Revenue of Government from Steel Protection

	Rs. lakhs
1924-25	120·3
1925-26	154·5
1926-27	153·9
1927-28	136·4
1928-29	117·5
1929-30	93·7
1930-31	75·3
1931-32	67·2
1932-33	63·2
1933-34	42·6
1934-35	43·2
1935-36	30·4
1936-37	21·2
1937-38	5·0
1938-39	11·0
1939-40	8·9
Total ...	1144·3
Plus Excise duty from 1934-35 to 1939-40	198·3
	1342·6
Less Bounty paid to the Company	208·7
	1133·9

As protection begins to be effective in the sense of the growth of the internal industry and diminution of foreign imports, revenue is bound to fall. This is a well-known proposition. However, no Government should rely upon the revenue from protection as a permanent source and every Government affording protection to particular industries has not only to develop other sources gradually but sometimes is in a position to recoup its position indirectly, as has been also the case in the sugar protection. For instance, the Steel industry, alone, apart from the subsidiary industries dependent upon it, made several other direct and indirect contributions to the Government exchequer. Figures for recent years are given below:—

TABLE XX

Indirect Contributions to Government Revenue

(Rs. lakhs)

	Excise duty on ingots produced	Customs duty on materials imported	Railway freight	Income-Tax etc., from Company and employees	Miscellaneous	Total
1932-33 ...	...	3·56	93·42	4·09	1·44	102·51
1933-34 ...	...	2·80	125·09	3·81	2·11	133·81
1934-35 ...	14·73	4·45	151·00	3·86	2·58	176·62
1935-36 ...	35·24	5·04	159·22	3·92	3·09	206·51
1936-37 ...	34·13	3·52	155·92	35·55	2·85	231·97
1937-38 ...	35·35	5·28	165·71	36·12	4·81	247·27
1938-39 ...	38·21	10·99	180·24	63·53	6·29	299·26
1939-40 ...	40·80	8·93	233·93	82·13	6·97	372·76

Besides this, the Company sold to Government 76,347 tons of rails in 1936-37 and 72,487 tons in 1937-38 at the contract price of Rs. 95 per ton, which was Rs. 35 per ton less than the average world export price. This saved Rs. 52 lakhs to Government. It will be seen that the revenue thus indirectly derived has more than amply made up for the fall in the receipts from the protective duties.

X

The Consumer's Burden

An incorrect assumption often made is that the burden to the consumer is represented by the exact amount of the protective duty. This assumption has been exploded by a well-known free-trader in the following words: "A precise measurement of this burden has sometimes been attempted. Following the simplest line of reasoning, it has been argued that the total domestic production, multiplied by the rate of duty, would gauge accurately the added charge on the community. The dangers of the hasty application of deductive reasoning could not be better illustrated than by the comparison of this version of the situation with the facts. Had there been no duty on iron, the price at the seaboard would unquestionably have been lower than it was,—at times by the full amount of the duty, at other times by less."[73] The author proceeds to state that, in fact, owing to the increased production and greater efficiency, prices in the United States actually fell below the import prices *ex-duty* and concludes that if the industry had not arisen in the United States, owing to greater demand for British steel, the import prices would have ruled higher than they did. In the special case of the iron and steel industry, moreover, the predominance of international cartels and combines, with the sharing of world markets, which is often accompanied by it, leaves no reason to suppose that the foreigner, if left with a free market to himself, would have sold his goods at an appreciably lower price. Given the opportunity, he might have by cut-throat competition sought to destroy the weaker Indian industry and then systematically exploited the Indian market. The assumption, therefore, that a low price would have ruled is unwarranted and incorrect. Apart from this, the ordinary postulates of supply and demand in a free competitive market do not apply here; and as the foreigner actually charges discriminating prices as between different markets to dispose of his products

[73] Professor Taussig. *op.cit.*, p. 145.

even at "prime cost", so long as the duty imposed by India on imports is sufficient to ensure this prime cost, he will export his produce to India. This means that the burden of the duty has to a much larger extent than is commonly supposed fallen upon the foreigner. "To make the foreigner pay" may look an inappropriate ambition in a perfect world market; but I am not sure that the ambition is not capable of realisation in the special case of iron and steel. The burden, therefore, has not probably fallen upon the consumer to the extent commonly supposed.

The crocodile tears of interested critics shed for the "poor consumer", therefore, are not going to deceive us. In the first place, the consumer of steel is *not* poor and, in so far as his ability to pay is high, his interests are to be pitched up against those of the general taxpayer. The assistance to be given to the steel industry must come from the nation as a whole ultimately; whether it is to come from the taxpayers or from the consumers of steel is a question of economic policy. It cannot be averred by the worst critics of protection that the Indian system of taxation is particularly harsh upon the richer classes. In my opinion, as I have stated elsewhere, the system seems to impinge on the middle classes more than upon the rich or the poor. In the peculiar circumstances of India, any relief to the poorer amongst the taxpayers is, therefore, to be welcomed. It is on this ground among others that a bounty system is inferior to the import system; for the nature of steel is such that its consumption is not shared much by the poor. In an ultimate sense, of course, incidence does "percolate" to the poor in a very minute degree. Secondly, the possibility of "making the foreigner pay" and shifting the incidence upon him is also particularly to be borne in mind in the case of iron and steel; this is not feasible under the bounty system. So once we decide to grant assistance to an industry, we have to choose the lesser evil. To deny that the consumer bears any burden at all would, obviously, be fallacious. It is, in fact, *the defect of the merit of protection*, that the consumer has to make sacrifices in the interests of industrialisation and of increased wealth-producing capacity. All that we have to see is that the burden falls upon the broadest shoulders and that it is as small as possible. In the special

circumstances of the iron and steel trade, however, I can say with confidence that there has been no burden on the consumer which has not been nullified by other factors. In the first place, the dumping factor, the depreciations of foreign currencies, the appreciation of the rupee exchange and such unnatural and adventitious factors have put the consumer of steel in a specially favourable position. Protection has been necessary to safeguard the local industry against the harmful reactions of these factors.

The Tariff Board ably answered many of the stock arguments based on the consumer's burden in their very first Report.[74] The arguments were: (*i*) that the Indian agriculturist is poor and a higher price of steel means that his implements would cost him more; (*ii*) that protection would lead to reduction of India's imports, which boomerang-like, will react upon her exports of raw-materials and that this will harm agriculture, and (*iii*) that the costs of every industry in India would be raised if the price of steel went up and that the effect of a duty on steel was cumulative and far-reaching. It was pointed out, however, that agricultural implements were to be imported without any protective duty.

Secondly, that an increase in the duty on steel bars would mean about "Rs. 43 lakhs of burden spread over a population of 300 millions" would mean much less than *one anna* per head. The Board might have added that this was a *capital* cost and that the final effect on the cost of production of corn, etc., would be absolutely infinitesimal. As regards the second objection, the Board relies upon the general necessity of Protection and hesitated to express themselves on the "boomerang" effects of protection. I have done this in the INTRODUCTION to which a reference might be made. As regards the third objection, the Board made exhaustive calculations for railways, jute manufacturing industry, tea-gardening, etc., and came to the conclusion that the final effect was negligible. In fact, rails and fish-plates have received little or no protection from the beginning, while machinery has been largely unprotected.

[74] *Report*, 1924, pp. 70 ff.

However, one good test of the burden is the actual course of prices of steel products. I have already given some figures. The following statement showing the Bombay market prices for Continental bar and galvanised sheets, which are typical of the competitive decline of prices, shows the position very clearly:—

TABLE XXI

Decline of Steel Prices

	Bars Per ton Rs.	as.	Galvanised Sheets Per ton Rs.	as.	
1912-13	108	2*	...		* The Steel Company's Bar Mill started in October 1912.
1913-14	92	10	..		
1914-15	109	4	...		
1915-16	201	8	282	8	
1916-17	360	0	440	0	
1917-18	536	4	686	13	
1918-19	800	0	873	4	
1919-20	477	8	525	13	
1920-21	300	0	411	11	
1921-22	189	0	401	11	
1922-23	159	0	319	3	
1923-24	144	12	338	2	
1924-25	130	6	309	8†	† The Steel Company's Sheet Mills started in December 1924.
1925-26	133	4	277	8	
1926-27	132	12	282	0	
1927-28	125	2	245	2	
1928-29	137	12	235	10	
1929-30	130	12	227	5	
1930-31	115	8	212	15	
1931-32	107	2	225	8	
1932-33	104	10	224	9	
1933-34	123	14	223	10	
1934-35	126	12	208	7	
1935-36	117	10	185	12	
1936-37	129	1	204	8	
1937-38	166	14	240	7	
December, 1938	172	5	225	0	

Another consideration, which is germane to the enquiry, is the relative burden borne by the taxpayer and the consumer of steel. As stated already the Government had obtained till

the end of 1937-38 a total revenue of Rs. 1035 lakhs from the steel protection. If this revenue had not accrued to the Government in the shape of customs duties on steel, it would have had to be raised from the taxpayer in other ways. If there had been no protection, the burden on the taxpayer would have been the same and probably fallen on the middle-class and poor sections of the community; the chances of making the foreigner pay some part of the taxation would have been lost; the country would have lost the enormous advantage of having a basic industry like steel firmly established, while the consumers would have been no better off and probably even worse off.[75]

XI

Employment and Labour Welfare

Another respect, in which the Tata Company occupies an altogether exceptional position, not only in India but perhaps in the whole world, is the fact that by its pioneer efforts it has established a large industrial town with a population of about one lakh and has made itself responsible for the most modern kind of civic amenities, such as roads, drainage, sanitation, water supply, markets, schools, hospitals, lighting, housing, etc. The number of men directly employed[76] by the Tata Company in their works, offices, mines, quarries,

[75] The Tariff Board stated as early as 1927 as follows:—"In spite of the imposition of protective duties, the prices in India never approached the anticipated price of Rs. 180 per ton and have been for the greater part of the period considerably below those prevailing immediately before the protective scheme came into force.......These facts leave no room for doubt that the protective duties have not imposed an undue burden on the consumer". (*Report*, pp. 16-17).

[76] It will be seen from the following table that the number is on the up-grade from year to year:—

	Number of Men
1934-35	43,200
1935-36	46,650
1936-37	44,562
1937-38	49,153

etc., is in the neighbourhood of 50,000. However, the growth of the Steel Company has led to the development of a number of ancillary enterprises in Jamshedpur and outside, such as the Tinplate Company, the Wire Products, refractories, and brick factories, re-rolling mills,—all of which might be said to provide the "secondary" employment to labour. A modest estimate of this "secondary" employment would be about 100,000 men.

However, the industry has had other ramifications. The Steel industry is the second largest consumer of coal in India, the first being railways and it may be said to lead to the employment of about 50,000. Thus, two important railways, the B.N.R. and the E.I.R., who are large employers of skilled labour, derive a large portion of their traffic from the Tata Company's works, mines, etc. The net employment due to this may be easily put at about 25,000 men. The very existence of the Silica and Firebrick industries in Bengal and Bihar depends on the existence of the iron and steel industry. This may account for about 10,000 men. Besides these a number of small concerns like those for the manufacture of buckets, boxes, trunks, lanterns, etc., from Tata material subsist all over the country. Their employment may be put at another 10,000. Another 100,000, therefore, may be added as due to these 'cognate' industries. The total direct and secondary employment therefore comes to about 250,000 men, and it illustrates very clearly the *cumulative* nature of industrial growth and employment, which gives the lie direct to the criticisms of hostile interests and which also shows the chief drawback of the doctrine of Discriminating Protection, which fails to see the industrial problem as a whole.

However, the Tata Company is not merely a factory for the employment of skilled and unskilled labour and for the manufacture of iron and steel but it occupies a unique position in the economy of the country, comparable to that of the Tennessy Valley Scheme in the United States. Everyone who visits Jamshedpur is struck with the beautiful experiment in industrial society which has been carried out. Even the critics of Indian protectionism have noted with satisfaction the treatment of labour at Jamshedpur. Thus Mrs. V. Anstey

observes:[77] "In the future Tata's ought to escape with less trouble than most employers, owing to the strenuous attempts that have been made to conciliate labour, and improve the conditions of life and work of the operatives. The excellent work of the Company in undertaking the development and sanitation of the town of Jamshedpur, providing houses, hospitals, and schools for the people, and encouraging co-operative societies, should eventually help to produce a permanent labour supply of a higher degree of efficiency than has yet been attained in India." Dr. H. L. Dey also admits that there has been "considerable improvement in the conditions of labour, especially in respect of wages, housing and various amenities of life".[78] The Tariff Board in the 1927 Report also praise the Company for "the great attention that has been paid to the welfare of the workmen."[79] Again, in their 1934 Report, they thoroughly examined the whole question, considering the two opposite points of view, (*a*) that too little was being done for labour, and (*b*) that too much was being done at the expense of the consumer of the products of the industry. They said: "The welfare activities of the Company have thrown on it responsibilities in some

[77] *Op. cit.*, pp. 250-51.

[78] In his article on "Protection of the Steel Industry, 1924-27", in the *Indian Journal of Economics*, July, 1928. It is curious, however, that Dr. Dey uses the fact of this improvement for quite a different purpose in his book: "And furthermore, in order to ensure permanence of supply and growth of efficiency he has to make the conditions of life for the workers as attractive as possible by providing decent houses at low rents, and establishing schools, gymnasiums, clubs, hospitals and dispensaries. In this way, the manufacture of steel in India is saddled with the cost of maintaining an elaborate municipal administration, which in other places is shared by the general public", (*Op. cit.*, p. 181). It is interesting how there is always a good and a bad side to everything in the world; but, of course, it all depends on what kind of glasses you wear! Supposing, however, the cost of steel does rise to a small extent owing to these municipal activities (about 8 to 12 annas per ton, seeing that the net expenditure on the Town amounts to about Rs. 4 lakhs), is it not a gain in itself to society that thousands of workers are afforded a higher standard of life than ruling elsewhere? Is the price of steel per ton the only criterion of wealth and welfare?

[79] *Report*, 1927, p. 76.

respects different from those of other industrial concerns. The Company has recognised its obligations to labour and the economic advantages to be derived from a contented and healthy population."[80] They further added: "Our inspection of both the works and the town of Jamshedpur has convinced us that the arrangements made by the Company for the welfare of labour are adequate. In the opinion of some too much attention and too much expenditure have been devoted to labour welfare, but we are definitely of opinion that the attention and expenditure bestowed on these activities are well repaid."[81]

XII

Conclusion

The foregoing survey of the Indian iron and steel industry has demonstrated most definitely not only the potency of protection in developing the Indian industries, but also the lacunae in our present industrial and fiscal policy. The protection to the Steel industry was granted ostensibly on the lines of Discriminating Protection. However, the Tariff Board did not (perhaps it was an impossible task to do so) separate out the exact element of protection necessitated by the formula of infant industries as such. They took into consideration only the fair selling price and the import prices to arrive at the assistance required. As stated already, the main factors which necessitated protection (and this fact has been admitted by successive Tariff Boards during 1924—1934) were: (1) excess capacity due to the aftermath of war; (2) the consequent scramble for world markets and unhealthy and uneconomic competition—the "dumping" proper; (3) the depreciations of Continental currencies, leading to "exchange dumping"; (4) the appreciation of the rupee in terms of sterling from 1924 onwards, and (5) the general depression, which forced practically every country in the world, including

[80] *Op. cit.*, p. 87.
[81] *Ibid.*, p. 89.

Britain (the classical home of the free-trade dogma) and several others, to take protective measures. There is hardly any margin left in all this for the "infant industry" type of protection, *which I think, the steel industry—unlike* e.g., *the sugar industry,—never really received.* Of course, the Tariff Board considered the natural advantages of the industry and automatically applied the triple formula to it; but this in itself does not constitute any proof that protection of the type favoured by the "infant industry" argument was really granted. There is a world of difference between procedure and fact.

CHAPTER III

SUBSIDIARY STEEL INDUSTRIES

It has been already stated in the previous Chapter that the emergence of the basic industry of Steel led to the development of numerous subsidiary industries in India. It is proposed here briefly to describe and recapitulate the measures taken to encourage their growth and the success achieved. The principal allied and dependent industries in this group are: (1) the engineering industry; (2) the wagon-building industry; (3) tinplate; (4) wire and wire nails; and (5) cast iron pipes. Apart from these, there are the agricultural implements industry, the locomotive industry and the enamelled ware industry. The position of these several industries was bound to be affected by the scheme of protection proposed for the steel industry and hence their cases received the early attention of the Tariff Board. In most cases, it was found necessary to protect these industries in order mainly to compensate them for the rise in their costs due to a higher price of the raw material viz., steel, and for their consequent weaker competitive position as against their foreign competitors.[1] On the other hand, for one reason or another, agricultural implements, locomotives, and enamelled ware did not receive protection. We shall briefly study the position of each of these industries in the light of protection.

I

The Engineering Industry

The Tariff Board defined the term "engineering" to cover the operations of steel forging (as distinct from rolling) and

[1] Report on Steel, 1924, p. 111.

all processes of fabrication such as bending, drilling, rivetting, etc., by which rolled steel is adapted for its final purpose.[2] Main branches of the industry include bridges and girder work; buildings, stagings, trestles, jettise etc.; oil and water tanks; well curbs; chimneys; river steamers, tugs, flats, barges, boats and pontoons; machinery and miscellaneous articles like switches and crossings, dogspikes and tie bars. Although some of these articles are produced by the parent industry, the work is mainly highly specialised. In applying for protection, the Indian Engineering Association stated in 1924 that the industry should be encouraged and protected by guaranteed Government orders at competitive Indian prices rather than by import duties or bounties, but that, failing this, they would prefer bounties to import duties. The Board were of the opinion that the difficulties in the way of giving "guaranteed orders" were insuperable, and that the bounty method did not lend itself easily to the purpose of protecting the variegated products of the engineering industry. As regards granting protection by import duties, the question arose whether protection should be, as claimed by the association, "precisely to the same extent as the steel industry is protected." If the same rates *ad valorem* were proposed on the final products of the industry as on steel, it would amount to the grant of a "substantive" protection to which the industry perhaps was not entitled, seeing that only the raw materials had become more costly as a result of the steel protection. However, the Board stated that the manufacture of raw steel and its fabrication were inseparably connected and must stand or fall together, and that the market for the Jamshedpur steel depended on an indigenous engineering industry. "The encouragement of engineering work in India", they said, "provides an indirect, but immediate stimulus to the production of raw steel", and, therefore, they held the view that it was not necessary "to discuss the question whether it fulfils the conditions laid down by the Fiscal Commission".[3] They further pointed out that the industry had maintained

[2] *Ibid.* p. 109.
[3] *Ibid.* pp. 111-112.

itself for many years in spite of the disadvantage of having to import its raw materials from abroad, and, finally, that the industry was one of great national importance, involving a capital investment of about Rs. 12 crores and employing over 75,000 men. "It is in this industry also that Indians can most readily obtain the technical training which is indispensable to the industrial development of the country." After a thorough examination of the evidence as to foreign competition, the Board accordingly made the following recommendations in 1924.

(1) 25 per cent *ad valorem* duty on fabricated steel generally but excluding (*a*) steamers, launches, barges, flats, boats and other vessels, and (*b*) all vehicles except colliery tubs and tipping wagons.

(2) 25 per cent *ad valorem* on switches and crossings.

(3) A specific duty of Rs. 40 per ton on spikes and tie bars.

The proposals were accepted by the Government and embodied in the Steel Industry (Protection) Act, 1924. In the Tariff Board's Supplementary Report of the 8th November 1924, additional duties were proposed on fabricated steel, but the proposal was not accepted by the Government. In 1925, the Board again advised an increase in duties ranging up to 32½ and 40 per cent. The Government, however, considered that the position of the engineering industry did not justify the increase. Thus the duties adopted in 1924 continued up to 1927.

In 1926-27, the Board again made a detailed enquiry.[4] The applicant firms argued: (*i*) that the actual price at which British fabricated steel could be imported even with a 25 per cent duty made it impossible for the Indian product to compete and that orders, which should go to Indian firms, were placed with firms abroad and, (*ii*) that the industry was in a worse position now than it had been when protection was first granted. The Board, however, held the view that the industry was well able to stand foreign competition, on the ground, firstly, that the charges of unfair competition were

[4] *Report*, 1927, p. 82 ff.

not substantiated; secondly, that the actual imports of fabricated steel were quite low as compared to the local production; and, thirdly, that while prices of imported fabricated steel had fallen, the costs of production of the Indian firms had fallen in a still greater proportion. The Board, therefore, recommended a reduction of the *ad valorem* duty from 25 per cent to a basic duty of 17 per cent *ad valorem,* and the imposition of an additional duty of Rs. 13 per ton on all fabricated steel imported from countries other than the United Kingdom. The Government accepted the recommendation.

The condition of the engineering industry had very much deteriorated in the years of the world depression, from 1929 onwards. This was no doubt partly due to a fall in the fixed capital investment during those years; but, as the Tariff Board stated in 1934, "it was also due to the total capacity of the fabricating industry in India being in excess of the work available in the country."[5] They estimated the total fabricating capacity at well over 150,000 tons a year, and the average consumption in 1931-33 at approximately 70,000 tons. Consequently, the engineering works were operating at between a half and a third of their capacity, thus incurring a heavy cost of conversion. The Tariff Board, therefore, were of the opinion that "substantive" as distinct from "compensatory" protection was no longer necessary; for the claim to substantive protection admitted in 1924 was based largely on the necessity to have large outputs and low costs of production. In the then circumstances, it was not only unnecessary but might be harmful to the industry to stimulate any further development of fabricating capacity. However, the Board opined that protection was necessary against dumping and unfair competition, as certain cases were brought to the notice of the Board (*e.g.*, the tender of Messrs. Dorman, Long and Company for the construction of the Nerbudda Bridge in 1933), in which there was a definite attempt to undersell on the part of the British integrated concerns. They, therefore, proposed a duty of Rs. 40 per ton on imported

[5] *Report*, 1934, p. 95 ff.

fabricated steel, "irrespective of the country of origin", the duty to be restricted to the period during which unfair competition prevailed. In addition, the Board made two specific recommendations for the consideration of the Government and the industry respectively: (1) that the Government should undertake "a bold policy of public loans for capital expenditure" in order to stimulate the market for capital goods like structural steel, and (2) that the industry itself should be recognised, with a substantial writing-down of capital and curtailment of the total capacity of the industry as a whole and the introduction of a greater degree of specialisation and of increased standardisation of products. It was proposed that the Government in distributing the orders in connection with its public-works programme should make internal reorganisation a condition-precedent. Needless to say, the *laissez-faire* policy of the Government of India prevented both the public-works programme or the re-organisation from being enforced. However, the trade recovery which took place in the constructional industries all over the world in the subsequent years was responsible for partly solving the problems of the industry.

There are two or three observations to be made in connection with the development of the Indian engineering industry. In the first place, the Tariff Board, it must be noted, did not adopt the normal procedure of examining whether the engineering industry satisfied the triple formula of Discriminating Protection but recommended "substantive" protection on the ground that the industry was inseparable from the steel industry, providing as it did the market for the latter. When, later, substantive protection was found necessary, "unfair competition" was the ground on which continuance of protection was upheld. Secondly, the Tariff Board emphasised right from the beginning the importance of the engineering industry in the future scheme of industrial affairs of the country and recommended that it deserved encouragement at the hands of the Government of India through the execution of public works. Little has been done by the Government, however, in this connection, and the industry has developed excess capacity owing to the lack of a commensurate growth of industrialism in the country. In

this connection, attention may be drawn to the remarks in Chapter II, Section i, where the importance of cumulative and mutually interdependent growth of industries is discussed. If "excess capacity" has developed, it does not suggest that industrialism and protection have failed, but only that they have not been sufficiently far-reaching, consistent and comprehensive in their planning. Thirdly, proof of the competence of the industry is available in the fact that India has become almost self-sufficient[6] in respect of fabricated steel. The industry no doubt needs to be reorganised, but the fact of self-sufficiency is quite encouraging, for it shows that, with the speeding-up of industrialisation the engineering works would be able to utilise their idle capacity fully, reduce costs all round and thus finally justify protection.

II

The Wagon-building Industry

The Indian Wagon industry largely came into existence at the end of the last war as a result of the Government's announcement in March 1918 that they would purchase annually 3,000 wagons in India for ten years. Wagons were originally built on a small scale by two engineering firms,— Messrs. Jessop and Company and Messrs. Burn and Company in Calcutta, and by Messrs. Human and Mohatta at Karachi. But no firm had specialised in wagon-building until the establishment of the Indian Standard Wagon Company at

[6] Cf. the following figures:—

Imports of Fabricated Steel

	Tons
1930-31	14,254
1931-32	4,775
1932-33	1,452
... ...	... ...
... ...	... ...
1937	1,095
1938	2,271
1939	1,095

Burnpur near Asansol in 1920. The case for the protection of the Indian manufacturer was that, prior to the war, wagon-building was profitable in India at competitive prices, but since 1922 there had been a definite attempt on the part of British firms to undersell the Indian manufacturers in order to recapture their lost market. The Tariff Board, however, were of the opinion that dumping was not proved and that the costs of British firms were really much lower than of Indian firms. Yet the Board held that "the building of wagons is a natural development of the growth of the steel industry in India; it is of great importance to the Indian steel manufacturer that this outlet for his steel should be open to him"[7]. Further, although wagon-building cannot be effectively developed in India except at some cost to the State, the Board felt that it was undesirable to raise railway costs by the imposition of import duties. In view of these considerations, the Board recommended the grant of bounties (not exceeding a total of Rs. 7 lakhs) on a sliding scale as follows:—

	Number of wagons	Amount of bounty per wagon	Total cost of bounty
		Rs.	Rs. lakhs
First year	800	850	6.80
Second year	1,000	700	7.00
Third year	1,200	580	6.96
Fourth year	1,400	500	7.00
Fifth year	1,600	440	7.04

The reduction of the bounty per wagon was to be *pari passu* with reduction in costs due to increased output. The Board further recommended that the Government should place its orders with the Indian firms as far as possible and ensure a continuity of orders. They also suggested that the

[7] Report on Steel, 1924, p. 119.

bounty should be taken into consideration in deciding between Indian and foreign tenders. Thus as, in the first year Rs. 850 per wagon was payable as bounty on 800 wagons, if the lowest foreign tender was, say, Rs. 3,800 per wagon, the order would be given to the Indian firm which quoted below Rs. 4,650 per wagon. Thus, two main features of protection of the wagon industry emerge from the above facts: (1) firstly, protection was necessary because wagon-building provided a market for the Indian steel industry and it was, like the engineering industry, inseparable from it; (2) secondly, the bounty method was preferred for reasons already stated and this was combined with the policy of placing orders with Indian firms on a basis of continuity.

The question of continuance of protection to the industry came up before the Tariff Board again in 1926. The Board found that the industry had made great strides during the years 1924-26, as a result of bounties and guaranteed purchases, and that the policy of protection was successful, for the industry was able to meet a large proportion of the demand in India. As a consequence of the reduction in the price of raw steel, and decrease in costs due to extended scale of production brought about by fixed orders for standard wagons, the Indian producers were able to meet foreign competition. The Board, therefore, opined that it required no assistance other than the existing revenue duty of 10 per cent and that the bounty scheme was no longer necessary. However, they recommended that, in view of the abnormally low demand for the next few years, until normal conditions were restored, all Government orders should be placed in India, provided a certain limit of price was not exceeded.[8]

The Board also examined the question of protection to the component parts of wagons and underframes, such as forgings, steel casting and spring steel, and bolts and nuts. (*i*) They held that the manufacture of forgings should be regarded as merely a process incidental to the manufacture of wagons and not as a separate industry, and that, therefore, it should be likewise subject to the revenue duty of 10 per cent

[8] Report on Steel, 1927, Vol. VIII, para 68.

only. However, they also recommended that orders for forgings should be placed as far as possible in India and, in comparing Indian with foreign quotations, an allowance of 2½ per cent, over and above the revenue duty, should be made.[9] (*ii*) As regards steel castings, the annual demand was sufficient to permit of an economic output. Therefore, the Board considered that a substantial case for protection had been made out. Accordingly, they suggested a scheme of bounties as the best and most economical method of extending help to this branch of the industry. The payment of bounty was to be at the rate of Rs. 2-8-0 per cwt., to the Hukumchand Electric Steel Works on all steel castings for railing wagons, underframes and locomotives, subject to a maximum of Rs. 180,000 during the period 1927-30. The Board had no recommendation to make in respect of spring steel.[10] (*iii*) On bolts and nuts the Board recommended a specific duty of Rs. 2 per cwt., in the place of the *ad valorem* duty of 10 per cent.[11]

The sum and substance of the 1927 recommendations was to withdraw protection and to subject wagons, underframes, and component parts generally to the revenue duties with minor variations. The Government, in 1928, accepted the findings of the Board which were embodied in the Steel Protection Act of that year. The only recommendation which they did not accept was in regard to bounties on steel castings, on the ground that the Indian demand was not sufficient to justify protection by means of a bounty. When the next enquiry in regard to the steel trades was held by the Tariff Board in 1933-34, the Board stated that they were satisfied with the manner in which assistance was granted to Indian manufacturers of wagons and underframes by the Railway Board by means of direct purchases from them. In that year, the Tariff Board estimated the railways' requirements in the neighbourhood of 3,000 wagons, while total capacity had grown up to 8,500 wagons. As far as possible both for the

[9] *Ibid.*, para 81.
[10] *Ibid.*, para 105.
[11] *Ibid.*, para 113.

standard as well as non-standard types of wagons, orders are now placed in the country.[12]

III

Tinplate

Tinplate consists of very thin sheets of steel coated with tin. It is essentially a steel product, the weight of tin used being only one-fiftieth to one-fiftyfifth part of the weight of the steel. Apart from steel and tin, other materials necessary are sulphuric acid, pink meal, palm oil, greases etc. So far as India is concerned, tin has to be imported from Malaya; sulphuric acid is available as a by-product of the steel furnaces; palm oil is obtained from West Africa; and the other materials from England. Tinplate is used for making tins for kerosene and petrol, for packing cigarettes, biscuits, and preserved fruits and pickles. The home of the industry is in South Wales, while the chief competitor is the United States, where the industry was developed at great cost with the help of Welsh labour and with heavy protective duties. The relative advantages and disadvantages[13] of the Indian industry, as compared to the Welsh, may be briefly stated. In the first place, the Indian Tinplate Company which is the virtual monopolist in India is the result of vertical integration between two firms, the Tata Iron and Steel Company, the supplier of the raw material (viz., tin-bars), and the Burma Oil Company, the consumer of the finished product. The share capital of this Company is Rs. 75 lakhs, of which Rs. 25 lakhs is held by Tatas and Rs. 50 lakhs by the Burma Oil Company. This integration has led to a great stability in the position of the Tinplate company owing to assured supplies of the chief raw material on the one hand and a guaranteed market (for nearly 75 per cent) of its total production of tinplate. In this respect, the Welsh producers are

[12] Report on Steel, 1934, para 171.

[13] Cf. an illuminating article by Dr. H. L. Dey on "The Indian Tinplate Industry: A Study in Comparative Advantages," in the *Indian Journal of Economics*, October 1928, pp. 188 ff.

no doubt handicapped, as their market is scattered all over the world and the cost of transportation is added to their basic price. Secondly, the raw materials are available to the Indian Company at a total cost per ton of tinplate which is not higher than what the Welsh industry has to pay. As regards tin, Malaya and Burma, the sources of supply, are quite close; this advantage is shared by Wales also, which derives its tin from many parts of the world. The fact that there is a fairly heavy revenue import duty (reduced from about Rs. 555 per ton to Rs. 250 per ton) is not a *national* disadvantage, but only a disadvantage from the narrow viewpoint of the industry. Similarly the 15 per cent duty on imported palm oil cannot be regarded as a disadvantage, though the fact that it has to be imported from West Africa is one. The import of other essential materials from England is also a disadvantage for the Indian industry. The most important fact to be noted, however, is that skilled labour has had to be imported from Wales, for the processes of making tinplates are very difficult and can be mastered only with an experience of 15 to 20 years. Hence the covenanted staff of the Tinplate Company was largely derived from abroad and Indian workmen have been able to take their place only very slowly. Moreover, as production in India has to be carried on under conditions of extreme heat in the workshops, especially in the tin-houses, the Tinplate Company has had to invest an enormous amount of capital in providing for a cooling system, which, of course, reacted very favourably on the cost of production and output per head. As regards the market for the industry, it was not only a guaranteed one, but more than ample for the Company. In 1924, the Tariff Board estimated that the annual consumption of tinplate in India was about 50,000 tons with a tendency to increase, while the Company's output was 28,000 tons only.

In view of all these facts, the Tariff Board in 1924 considered that the industry could not develop without adequate protection and that there were prospects that protection would become ultimately unnecessary. The main criticism they made was as regards the 25 year contracts of the Tinplate Company with the Tata Iron and Steel Company on the one hand and with the Burma Oil Company on the other. The con-

tract with the Burma Oil Company provided for the purchase of tinplate at a price equal to that paid for imported tinplate, including freight, insurance, customs duty and landing charges. The contract with the Tatas provided for an intricate arrangement by which the Tatas undertook to supply annually 35,000 tons of sheet bars at a provisional price equal to the price f.o.r. Swansea (South Wales) of sheet bar. At the end of the year, an adjustment was made by which if the cost of production of tinplate exceeded the import price of tinplate, the Tatas had to pay half the excess to the Tinplate Company and if it was less than the import price, the Tinplate Company paid half of the profit to the Tatas. In calculating the costs, allowance was made for depreciation at specified rates, for interest at 10 per cent on the debentures (which are held wholly by the Burma Oil Company) and for interest at 6 per cent on the share capital (two-thirds of which is also owned by the Burma Oil Company). The Tariff Board rightly remarked that "the Tinplate Company is being heavily subsidised by the Tata Iron and Steel Company", and that the contract "seems to us to have been ill-advised", both because it runs for too long a period and because the responsibility for the purchaser's efficiency or otherwise is borne by the Tatas.[14] Yet, they were of the opinion that protection would not be unjustified, in view of the facts that the Burma Oil Company received no concession in the matter of price but paid the import price, and that the establishment of the tinplate industry in India was in itself desirable.[15] Accordingly, they recommended protection by means of a specific duty of Rs. 60 per ton, which corresponded to about 15 per cent *ad valorem* as compared to the former revenue duty of 10 per cent *ad valorem*. This proposal was accepted by the Government and embodied in the Steel Act of 1924. In 1925, the Board considered the claim of the industry for addi-

[14] Report on Steel, 1924, pp. 125-26.

[15] It may be noted that the gain to the Burma Oil Company was threefold; a high rate of interest on debentures held by them and guaranteed interest on share capital; a sufficiently high price for tinplate, including all costs of transport; but a very low price for sheet bars (Swansea price f.o.r.).

tional protection and recommended that the specific duty should be raised to Rs. 89 per ton and that the industry should be given a rebate of the duty on imported tin. In February 1926, the Government raised the duty to Rs. 85 per ton and replaced the existing 15 per cent *ad valorem* duty on tin (which worked out at Rs. 555 per ton) by a specific duty of Rs. 250 per ton.

In 1926 when the Tariff Board again reviewed the position of the industry, they found that the industry had made great progress within a comparatively short period, and that there had been considerable improvement in the efficiency of the industry and particularly in the skill of the workmen, who under the training of Welsh instructors had rapidly acquired the necessary technical knowledge. Between 1924 and 1926 works costs had fallen from Rs. 459 per ton to Rs. 313, and while the Indian labour costs had fallen from Rs. 58 to Rs. 34 per ton, output per head had risen from 6.58 tons to 12.29 tons. These, according to the Board, were results constituting "a good record of progress" and they "fully justify the measure of protection granted to the industry".[16]

In spite of these improvements, however, the industry was financially unsuccessful and incurred huge losses. The Tariff Board attributed this to several causes: (*a*) the fall in the sterling price of tinbar, owing to the collapse of the Continental exchanges, causing a fall of about £2 per ton (from £8 to £6) between 1924 and 1926 in the price of Continental tinbar; (*b*) the fall in Welsh costs due to cheaper coal and lower wages; (*c*) the collapse of the combine of Welsh Tinplate Manufacturers which had so far helped to maintain prices. The Board, it must be noted, also mentioned the appreciation in the sterling value of the rupee as a factor responsible for a considerable part of the losses incurred by the Tinplate Company of India. They estimated that the rise in the ratio from 16d. to 18d. between 1924 and 1926 had made a difference of Rs. 14 lakhs in the works costs to the Company. The Board, therefore, recommended a further

[16] Report on Steel, 1926, p. 107.

period of protection on the basis of a duty of Rs. 48 per ton. The proposal was accepted by the Government. Incidentally, it may be noted that the Board was approached by the Welsh Association with an application that preferential duties be fixed in favour of Wales as against the Continental producers. The Board rejected this proposal stating that "as far as the economic aspect goes, we must definitely state that we find no ground for the adoption of such a policy; preferential rates in favour of the principal competitor would, on economic grounds, be incompatible with any scheme of protection and we are, for that reason, unable to recommend them".[17]

The Tariff Board report of 1926 had praised the industry for its rapid development in the 1934 report, the Board stated: "No industry, in our opinion, has made better use of its opportunities under the protective scheme". The 1926 estimate of the Company's capacity at 36,000 tons was considerably exceeded: in 1934, actual production stood at more than 46,000 tons. This increase in output was possible primarily by the use of wider rolls and by improved efficiency in practice, which were also reflected in reduced costs. The average output of labour per head rose from 13.8 tons to 14. 2 tons. In the meantime, dating from 1st January 1927, fresh agreements were entered into with both the Tatas and the Burma Oil Company, providing, in the former case for a specified annual supply of tin bar at agreed prices,[18] and, in the latter for the sale of tinplates at the port price of imported tinplates delivered at any destination. During this period also the Tinplate Company substantially reconstructed its capital liabilities by writing down the share capital and by paying off the debentures. In spite of all these reforms and economies, however, the Company was still in need of

[17] *Ibid.*, p. 123. This remark is worthy of note, because the Board itself in 1934 decided, in spite of the above argument, in favour of preference; but by that time, Imperial Preference had taken firm root as a parasite on the main plant of Discriminating Protection.

[18] At Rs. 83 per ton up to December 1936; thereafter, (or from 1st April 1934, if the protective duty of Rs. 48 per ton is the reduced) at 33 per cent of the average f.o.b., South Wales export price of tinplates.

protection, because although the estimated fair selling price in 1934 was much lower than in 1926, the import prices had fallen to a still lower level owing to world-wide competition in the industry. In particular, the American and German producers (the latter working under a system of export subsidies) were selling tinplate at uneconomical prices owing to the exigencies of the world depression, while Welsh producers were considerably handicapped by the competition. The Board, therefore, recommended a preferential duty at Rs. 38 per ton for British tinplate and a higher duty at Rs. 59 per ton for continental tinplate. In addition to this recommendation, there was one important point raised by the Board to which reference might be made. As stated in footnote 18 below, the price of tin bar purchased by the Tinplate Company from the Tatas was fixed at Rs. 83 per ton up to 19th December 1936 and at 33 per cent of the f.o.b. price of Welsh tinplates thereafter. According to the Board's estimate, the price after December 1936 would work out at Rs. 70 and the average for the whole period of protection at about Rs. 74 per ton. The Board considered these prices to be far in excess of what the Tatas should charge in view of their costs of production of tin bar. The Board further regarded a price of Rs. 64 per ton as reasonable and stated that if the price of tin bar could be brought down to this, it would be possible to reduce the duties on tinplate by about Rs. 13 per ton. The Government accepted the proposals of the Tariff Board, but put it as a condition[19] that if the Tatas "did not revise their contract with the Tinplate Company more in accordance with the fair selling price of tin bars by March 1935, the Government would consider reducing the revenue duty on billets".[20] The duties were imposed by the Iron and Steel Duties Act, 1934, for a period of seven years ending 1941.

[19] *Report*, 1926, pp. 113-4. It is remarkable that when the contract was clearly unfavourable to the Tatas in 1924, the protective duty was not made conditional upon a revision of the contract on a reasonable basis! Then it was the Tinplate Company (i.e., the major shareholder, viz., the Burma Oil Company) which benefited.

[20] B. N. Adarkar, *History of the Indian Tariff*, 1924-39, p. 24.

IV

Wire and Wire Nails

In 1924, on the application of the Indian Steel Wire Products Ltd., the Tariff Board examined the case for protection of wire and wire nails. The Company concerned had just started production and it was not possible to arrive at very accurate results as regards the costs and fair selling prices of its products. But on the basis of certain assumptions, they arrived at the conclusion that about Rs. 60 per ton would be the duty required. However, there were three principal classes of products to be considered: (*a*) barbed wire and stranded fencing wire, (*b*) single strand plain or galvanised wire made of ordinary soft steel, and (*c*) special wire, either fine or hard. The Indian company was producing mainly wire of the second type. The Board, therefore, recommended the continuance of the *ad valorem* revenue duty of 10 per cent on the barbed and fencing wires, while a duty of Rs. 60 per ton on all other wires, since for customs purposes differentiation between the second and third groups was difficult. The same amount of protection was recommended for wire nails. In the supplementary enquiry of 1925 it was discovered that the Company could not get its wire rod from the Tatas, and the latter had given no definite undertaking in this connection. Thus it was considered by the Board that the first condition of the "triple formula" was not satisfied. The protective duty on wire rod, therefore, was withdrawn. In 1927, the Indian Steel Wire Products Ltd., went into liquidation and, on the recommendation of the Board, the protective duties on wire and wire nails were also removed in 1928, although the revenue duty of 10 per cent *ad valorem* was reimposed. In 1931 the industry, represented now by the Indian Steel Wire Products Ltd., re-organised under new proprietorship, again applied for protection. This company now proposed to set up a rod mill for the manufacture of wire rods from billets supplied by the Tatas and thus fulfil the first condition of the "triple formula". The Board admitted that it was quite feasible thus to manufacture wire rod economically, but while recommending a duty of Rs. 45 on wire (excepting barbed

and fencing wire) and wire nails, they permitted the Company to import wire rod free of duty, as a measure of additional safety. By 1934, the Company had set up a rod mill and thus fulfilled the condition on which protection was granted. In that year, the Tariff Board recommended a duty of Rs. 60 per ton on non-British imports, mainly Continental and Japanese, products, which were showing a steep downward trend in prices. A lower duty of Rs. 25 per ton was proposed on British imports of wire and wire nails. Fencing wire was excluded from the scope of protection in view of its importance for agriculture, as also wire nails made from imported wire, as their case could not fit into the formula of protection. All the proposals were accepted by the Government and embodied in the Iron and Steel Duties Act, 1934.

V

Cast Iron Pipes

The cast-iron pipes section of the iron industry was the only section of the iron industry to claim protection. The Bengal Iron Company and the Mysore Iron Works were the principal producers, while the Indian Hume Pipe Company, also applied for protection against imported steel and asbestos pipes. The Tariff Board (in 1934) considered these claims. As regards cast iron pipes, they stated that the first and third conditions of the "triple formula" were fully satisfied, but they were not quite sure about the second, because "the industry is already in a position to meet more than the normal demand and does not, therefore, stand in need of further development".[21] The two companies producing cast iron pipes had a joint capacity of over 75,000 tons, while the actual total consumption in India was only 30,000 tons or so. However, due to several causes of which a depreciated exchange was perhaps the most prominent, Japan was giving unfair competition. It was therefore, a legitimate inference that the industry would be normally in a position to do without

[21] *Report*, 1934, pp. 131 ff.

protection[22] and that the need for protection arose strictly from the abnormal competition from Japan. No protection was deemed necessary against British products which were priced even higher than the Indian products. The Board suggested that there should be a duty of Rs. 57-8-0 per ton on non-British imports, and no duty on British products. The Tariff Board specially computed the figures for imports of cast iron pipes from the United Kingdom and Japan respectively as under:—

Imports of Cast Iron Pipes (1933)

	Tons	Value	Price per ton (Rs.)
U. K.	1,069	1,40,008	131
Japan	851	61,694	72.5

Figures for cast iron pipes are mixed up with fittings and cast steel pipes in the trade returns. Recent figures for pipes and fittings (cast iron and cast steel) are as under:—

	1937	1938 (tons)	1939	1937	1938 (value in Rs. 000)	1939
U. K.	1,418	2,234	2,482	663	765	797
Other Countries	91	121	63	53	72	20

It is clear that the differential duties have helped the United Kingdom considerably, at the expense of Japan.

As regards, cast steel and asbestos pipes, it was the finding of the Board that foreign competition in this field was negligible and such foreign products as were imported did not compete with the Indian products.

It must be stated that protection here, as in most other cases, was not of the "young industries" type, but was necessitated by unfair competition and exchange factors.

[22] It may also be noted that one chief reason, why protection to cast iron products was deemed necessary, was that the external market for Indian pig iron was contracting and that, therefore, the development of an internal market for it was "a matter of great consequence" (*Report*, 1934, p. 135).

VI

Agricultural Implements, Locomotives and Enamelled Ware

A. In 1924, two applications were received by the Government for protection of the Agricultural implements industry—one from Kirloskar Brothers, Ltd., of Kirloskarwadi in the Bombay Presidency and the other from the Agricultural Implements Company Ltd., of Jamshedpur. The former specialised in the manufacture of ploughs, made partly of steel and partly of iron, but in their case, according to the Board, the competition of imported ploughs was not serious. Even with an increased duty on raw steel, the Board did not see any reason to make any recommendation in regard to protection of ploughs. The other company, manufactured picks, *powrahs* or Kodalis, and hoes, in which there was some measure of foreign competition. The Board recommended a moderate protective duty of 25 per cent *ad valorem* in the place of the existing revenue duty of 15 per cent, as a temporary measure, till the Company was in a position to get a foothold in the Indian market, increase its production and thus bring costs down. The proposals were accepted by the Government; but in the subsequent legislation, the Assembly, in spite of Government opposition, deleted the proposal to enhance the duty on agricultural implements, as it was apprehended that this might injure the interests of the agriculturist. In 1926, there was a fresh application made by the firms concerned for protection but it was withdrawn.

B. As regards the enamelled ware industry, the Board was of opinion that the prospects were quite favourable, but the market for the products was rather limited. Hence the Board did not wish to restrict the market further by raising the prices further by import duties on enamelled ware. However there was a good case for encouraging the manufacture of the commodity in India, as it afforded an opening to the small capitalist and the technical processes were not of great difficulty. The enamelling firms opposed protection of black sheets on the ground that it would raise their costs of production, but the Board preferred that relief should be granted to the Companies in some other way than allow-

ing black sheets to be imported free of duty. They considered the proposal that the firms should be ready to import the steel sheets they required free of duty, but they felt that the practical difficulties would be great, as the Customs officers could not possibly discriminate between the special qualities of sheets suitable for enamelling, and other sheets. The Board estimated that the cost of steel was one-third of the value of the finished goods and, therefore, the increase of the duty from 10 per cent to 15 per cent would mean an increase in the cost of production of only 1½ per cent. For these reasons the Tariff Board abolished the duties on some of the other raw materials like borax and boracic acid, cryolite, antimony, felspar, etc. The Board were of the opinion that the consequent reduction in the cost of production thus achieved would more than counterbalance the increase due to a higher duty on black sheets.

C. In the case of the locomotive industry, the Board were of the opinion that it was desirable on national grounds that the industry should be established in India. Apart from its importance as affecting the question of national defence, the industry was likely to provide opportunities of training in mechanical engineering to Indians. As regards the labour supply and materials the Board stated that the industry was favourably situated: "There are many engineering works, Railway workshops and factories, where labour of the kind required in this industry is available at reasonable cost and in sufficient quantity. With regard to raw materials, it is estimated that about 50 per cent of the total quantity of raw materials, required in the manufacture of a locomotive can be obtained in India." Not only was the industry essential from the national viewpoint, but it was of considerable importance to the development of the steel industry itself. Yet, the Board had to reject the claim for protection on the ground that the Fiscal Commission's condition of "a large home market" was not satisfied.

The Peninsular Locomotive Company Ltd., was the only private firm interested in the manufacture of locomotives in India. Although its establishment was under consideration for some time earlier, there is no doubt that its final incorporation in December 1921 was the direct outcome of an

announcement by the Government of India in September 1921 to the effect that they would encourage the production of locomotives in India by placing large orders for them in the country. Thus ran the Government *communiqué* of the 30th September 1921:

"In pursuance of their express policy of making India as far as possible independent in the supply of materials for railways, the Government of India have had under consideration the question of the construction of locomotives in India and they are now in a position to give a general undertaking that tenders will be *invited annually in India for all the railway locomotives and locomotive boilers required by Government during the 12 years commencing with 1923*......It is estimated that the average annual requirements of Government will be 160 locomotive engines and 160 additional boilers during 1923 and 1924, and thereafter 400 locomotives and 400 additional boilers". (Italics mine).

However, some time after this, the Government went back on their word and stated that the requirements of the Railways during 1924-25 would be only 60 locomotives and that it was doubtful whether the requirements would, in any of the subsequent years, be as high as 100 locomotives. The economy drive proposed by the Inchcape Committee was quoted as an excuse for this as also the "pooling" scheme of the Pope Committee. Owing to this sudden reversal of policy, the bottom dropped out of the Peninsular Company's project and, as the market for locomotives was almost entirely commanded by the Government, the Company had to close down.[23]

In 1924, the Tariff Board estimated that the measure of protection necessary would be £ 2,000 on the then British price of a locomotive of £ 6,400 f.o.b., *i.e.*, nearly 30 per cent. In view of the fact that in Canada and Australia, with a much smaller total milage of railways than India (who has the fourth largest milage in the world), have sought to develop their respective locomotive industries with import duties ranging from 22½ to 27½ per cent *ad valorem*, 30 per cent would not have been too high for India. However, it has become

[23] The Tariff Board (Report on Steel, 1924, pp. 169-173) rightly laid the responsibility for the falsification of the Company's hopes on the Government.

abundantly clear that of greater importance even than the import duties would be the practical assistance of the country's railway authorities in respect of placing orders for locomotives and boilers. In no country in the world is there so much apathy shown by the Government towards a national locomotive industry. India's dependence on foreign, particularly British,[24] supplies is not in any way due to any technical difficulties standing in the way of manufacture. In fact, with inadequate equipment and plant, locomotives and boilers are being built in railway workshops from the early days of railway operations. The only obstacle in the way has been the unwillingness of the Railway authorities to place orders inside the country on a sufficiently large scale.

According to estimates made after a very thorough study of the question by Messrs. Humphries and Srinivasan,[25] the Government experts, in January 1940, the minimum average annual requirements of Indian Railways will, in future, be 74 broad-gauge and 26 metre-gauge locomotives with an equal number of additional boilers, spares and components. Although in 1924, Mr. Reed, Chairman of the Peninsular Company estimated that an optimum size of a factory required a minimum production of 200 locomotives, according to the above-named two experts, the optimum capacity would be 70 broad-guage locomotives (average weight of 145 tons each) and 70 additional boilers and spares, or in terms of complete locomotives, 100. There is thus a sufficient market in the country for the economical production of locomotives. Not only this, but as the experts point out, the "all-in cost of production" of a broad-guage "XE" locomotive and tender will be Rs. 98,000, *i.e.*, about 20 per cent less than the price of imported locomotives.[26] The import price of locomotives

[24] During the years 1937, 1938 and 1939, total value of railway locomotives etc., from the United Kingdom was respectively Rs. 33, 33 and 37 lakhs; from Germany, Rs. 5, 8 and 29 lakhs; and from other countries, Rs. 4, 9 and 8 lakhs.

[25] Report on "The Construction of Locomotives in India in State Railway Workshops," 1940, by Messrs. J. Humphries and K. C. Srinivasan.

[26] The purchase price of similar types of imported locomotives varies from Rs. 124,000 to Rs. 134,000.

is unnecessarily inflated by several costs such as packing, insurances, ocean freight, re-erection and trials in India etc., all of which could be saved if the locomotives were built in India, because "during the latter half of the locomotive life cycle that may be regarded as having ended in 1940, various steps had been taken to increase the utilisation of the existing stock of locomotives which have had the effect of decreasing the demand for them during that period (*i.e.*, up to 1940) and of largely increasing the demand during the first half of next 'life cycle', (*i.e.*, after 1940)".

The war presented an excellent opportunity for developing the locomotive industry in India not by protection so much as by a more direct aid. But although the circumstances are so favourable, the Government have once more shelved the proposal on the ground that this is not an opportune moment in view of the "uncertain conditions" caused by the War! On the contrary, as the experts themselves pointed out in their report, "the financial prospects, during this war,......are naturally brighter than in normal years". War conditions have not prevented the starting of many essential industries in India. There is no reason why the locomotive industry should be an exception.

CHAPTER IV

THE COTTON INDUSTRY[1]

The application of the policy of Protection to the Cotton Textile Industry,—the largest and most typical Indian industry,—makes an interesting study, in view of the peculiar circumstances under which protection was necessitated as also the peculiar methods by means of which the industry has been enabled to tide over its difficulties in the post-War period. We shall undertake here a brief résumé of the various measures adopted by the Government and of the findings of the various Tariff Boards since 1926, and then get down to the basic conditions of the industry and its vicissitudes and present position.

I

Condition in post-War Times

The Tariff Board enquiry of 1926-27 followed a localised depression in the Cotton Industry (especially in Bombay) during 1923—26. The findings of the Board were mainly as under:—

(*i*) The depression in the industry was much more actually felt in Bombay than in other centres, and the demand for protection was consequently more earnestly pressed

[1] It may be stated here that the purpose of this Chapter on the Cotton Industry as of others, is to study the working of the system of protection and to assess the measure of success of the industry in justifying the measure of protection granted since 1926. It obviously falls out of the scope of the Chapter to examine the findings of the *Reports* of the Bombay Textile Labour Committee and the Cawnpore Labour Committee, except in so far as these *Reports* shed any light on the *problem* in hand, or the historical events in the industry except in relation to their bearing on the question of protection.

from Bombay (and also Ahmedabad) than from the other centres. They attributed the "atrophy" of Bombay to several causes, such as (*a*) over-capitalisation, caused by purchases of machinery at inflated prices, (*b*) the high dividends paid by Bombay during the boom period, (*c*) the loss of the China trade in yarn which was not compensated by an increase of piece-goods exports, (*d*) the increasing competition of mills in Ahmedabad and other Indian centres, (*e*) the markedly higher labour costs in Bombay which accentuated the difficulties, (*f*) the high local taxation in Bombay City, (*g*) the higher levels of cost of fuel and power, and water. On the other hand, the Board denied that the difficulties were due to the conservatism or lack of initiative of the managing agency system or that they were caused by the use of inefficient and obsolete machinery.

(*ii*) That the depression was due largely to causes world-wide in their operation, such as the altered relations between agrarian and general prices since 1920, which had reduced the purchasing power of the masses, the cyclical character of trade and India's participation in the world depression following "the boom of 1921—23" and, lastly, the rising trend of American cotton prices by which the cost of the raw material of the Indian industry was determined.

(*iii*) As regards the increasing competition of Japan, they were of the opinion (*a*) that "the depreciation of the Japanese Exchange, while it lasted, stimulated exports from Japan but Japan now enjoys no special advantage in regard to exchange", (*b*) that there was no dumping in the ordinary sense, but (*c*) that in view of the double-shift working in Japan and the inferior conditions of labour in Japan in respect of hours and the employment of women and juveniles at night, there was "unfair competition" between Japan and India.

(*iv*) Their conclusion as regards the stabilisation of the rupee at 18d. was that "coming as it has done at a time of falling prices, it has rendered the problem presented

by the disparity between the prices and wages in the industry *somewhat more pronounced* but otherwise (?) has had no appreciable effect, direct or indirect, on its conditions".

The Board was, however, unanimous that the Indian industry had established a claim for protection against imports from Japan, on the ground of *inferior labour conditions*, and that the advantage to Japan of these was about 4 per cent of the cost of producing yarn or cloth. The majority of the Board proposed an increase in the import duty on cotton piecegoods from 11 to 15 per cent for three years and no increase in the duty on yarn, on the grounds, among others, that in Japan owing to the quicker depreciation of machinery, return on capital was not fully accounted for and that the case for a higher duty was "strengthened by the undoubted temporary handicap imposed on the industry by the stabilisation of the rupee at 1s. 6d." The majority of the Board also recommended a bounty on the spinning of higher counts of yarn. The President, Sir F. Noyce, however, in a separate minute of dissent, differed on these points and recommended a duty of 4 per cent for three years on all cotton manufactures, including yarn, imported from Japan.

The Government, however, rejected the proposal of the bounty on yarn of higher counts outright on the ground "that a long established industry, such as the cotton textile industry in Bombay, should need no stimulus, at the cost of the general taxpayer, to a development which is in its own interest". They further opined that the existing 11 per cent revenue duty on cotton piecegoods already covered the disadvantage due to labour conditions and return on capital in Japan, and held that an additional duty on Japanese yarn might prejudicially affect the handloom industry. There was a strong protest from the textile interests against the Government's refusal to take action; and to satisfy public opinion, the Government decided to levy a specific duty of 1½ annas per lb. on all imported yarn, unless the value was in excess of Rs. 1-14-0 in which case the duty was fixed at 5 per cent *ad valorem*.

II

The Exchange Factor

Whatever might be the special causes which handicapped the Bombay Mills during the years 1923—26, there is no doubt that the depression in the textile industry was the result in the main of the currency developments of the years following the crisis of 1920-21. Some of these developments were world-wide in their operation no doubt, but by 1924-25, in most countries there was general trade recovery. In India, on the other hand, the depression which set in somewhere in 1922 went on unabated right till 1928 and on it was superimposed another cyclical depression in 1929-30.

Some idea as to the extent of the exchange fluctuations wholly brought about by the manipulations of the Government may be had from the following Tables:—

TABLE I

Rate of Exchange (Calcutta on London) on the 1st of March

		Sterling		Gold	
1920		s.	d.	s.	d.
January	...	2	$3\frac{7}{8}$	1	10
April	...	2	4	1	$10\frac{1}{4}$
July	...	1	$8\frac{3}{4}$	1	$4\frac{7}{8}$
October	...	1	$9\frac{3}{8}$	1	$3\frac{17}{32}$

		Sterling		Gold	
1921		s.	d.	s.	d.
January	...	1	$5\frac{1}{4}$	1	$0\frac{15}{32}$
April	...	1	$3\frac{5}{8}$	1	$0\frac{9}{16}$
July	...	1	$3\frac{5}{16}$	0	$11\frac{23}{32}$
October	...	1	$5\frac{3}{8}$	1	$1\frac{3}{8}$
1922					
January	...	1	$3\frac{15}{16}$	1	$1\frac{25}{32}$
April	...	1	$3\frac{3}{16}$	1	$1\frac{21}{32}$
July	...	1	$3\frac{5}{8}$	1	$2\frac{3}{16}$
October	...	1	$3\frac{9}{16}$	1	$2\frac{7}{32}$

		Sterling		Gold	
1923		s.	d.	s.	d.
January	...	1	$4\frac{1}{32}$	1	$3\frac{9}{32}$
April	...	1	$4\frac{1}{16}$	1	$3\frac{13}{32}$
July	...	1	$4\frac{3}{32}$	1	$3\frac{1}{8}$
October	...	1	$4\frac{5}{32}$	1	$3\frac{3}{32}$
1924					
January	...	1	$5\frac{5}{32}$	1	$3\frac{1}{16}$
April	...	1	$4\frac{21}{32}$	1	$2\frac{23}{32}$
July	...	1	5	1	$3\frac{1}{8}$
October	...	1	$5\frac{23}{32}$	1	$4\frac{1}{4}$

	Sterling		Gold			Sterling		Gold	
1925	s.	d.	s.	d.	1926	s.	d.	s.	d.
January ...	1	$6\frac{1}{16}$	1	5	January ...	1	$6\frac{5}{32}$	... (a)	
April ...	1	$5\frac{27}{32}$	1	5	April	1	$5\frac{7}{8}$	...	
July ...	1	$6\frac{3}{32}$	1	6	July	1	$5\frac{7}{8}$	...	
October ...	1	$6\frac{5}{32}$	1	6	October ...	1	$5\frac{29}{32}$	...	

(*a*) Sterling parity=gold parity.

It will be seen from the above Table (I) that from 1923 onwards, the Government forced up the rupee-sterling ratio by artificial means. By the end of 1924, the process of rigging-up was complete. I do not wish in this place to go into the merits of the ratio controversy,[2] but only to direct attention to the fact that the ratio factor created a new disadvantage, which did not exist before, for the cotton industry. The cotton industry—its capital equipment, its profits, its overhead charges, its wage payments, in fact its entire cost structure was based upon and attuned to the 1s. 4d. ratio for years. For this industry, at any rate, if not for any other, the 1s. 4d. ratio had a peculiar "sanctity". The gradual rigging-up of the ratio to the new permanent level of 1s. 6d., therefore, put the industry *at a new disadvantage of about* 12½ *per cent, as against all foreign countries*, including Japan and Great Britain.

Not only this but, in the case of Japan, there was an additional disadvantage created owing to the fall in the exchange value of the Yen during 1923—25.

[2] Reference may here be made to a recent book by me on this question entitled *The Indian Monetary Policy*, in which I have clearly shown that the "monkeying" with the ratio steadily practised by the Government, during the years 1920—1938, has been responsible for great economic harm to the country.

TABLE II

Japanese Exchange (on London and New York)

Average during	London Par=2s. 0.582d.	New York Old Par=$ 49.846	
1913-14 ...	2/0.303	49.305	(* Figures from *Japanese Trade and Industry, p.* 28).
1915—1918 ...	2/1.332	50.190	
1919—1923 ...	2/3.674	49.017	
1924	1/10.773	41.978	
1925	1/8.273	40.801	
1926	1/11.140	46.856	
1927	1/11.407	47.425	
1928	1/10.907	46.457	
1929	1/10.755	46.070	
1930	2/0.342	49.367	

The figures clearly show that the Yen was depreciating between the years 1923 and 1929. I have given figures for the cross rates for the Yen, because they eliminate the depreciation of the Yen-rupee rate caused by the appreciation of the rupee. It is clear that the Tariff Board could not make up their mind about the influence of the depreciation of the Yen exchange on the Indian Cotton industry. For, having admitted[3] that though it was "not easy to base any conclusions on these figures as to the extent to which the movements of the Japanese exchange have affected the exports of cloth and yarn to India, yet they appear to show that the depreciation of the exchange stimulated them to an appreciable extent during the early period of the depreciation", they proceed to say that the question "is now of academical interest, as the Yen now practically stands at gold parity".[4] The figures in Table II show, however, that Japan enjoyed an exchange advantage due to the Yen's intrinsic depreciation of nearly 7 per cent in 1927, 16 per cent in 1925, 6 per cent in 1926, 4 per cent in 1927, 7 per cent in 1928, and 7 per cent in 1929. Thus, clearly, the issue was not one of "academical interest" only but of vital importance to the competitive position of the Indian industry. The Bombay Mill-owners' Association

[3] *Report*, 1927, o.54.
[4] *Ibid.*, p. 56.

claimed that even if the Yen had attained its gold parity, Japan still retained an advantage as its par value should be calculated on the basis of the rupee at 1s. 4d. However, the Board took the view that that advantage was not special to Japan but was shared by all foreign countries alike. Moreover, they relied upon the idea that when "the adjustments are complete, the exact value at which the gold value of the rupee is fixed is a matter of indifference to trade and industry"[5] —a statement, the fallacy of which is fully exposed in view of the theories of prices, according to which the adjustment may *never* be complete,[6] or, if ever complete, may take place in the *long* period, by which time, the industry might have collapsed. The Board made the damaging admission that, "by far the greater part of the increase in wages in Bombay was given in a period of rising exchange", but chose the *ignoratio elenchi* that "the rising exchange may have contributed to make the problem of wages somewhat more pronounced by lowering prices, without completely compensating for the fall, but, apart from any question of exchange, wages always constitute a difficulty in a period of falling prices, etc."[7] Obviously the Board did not wish to commit themselves to an *ex-cathedra* pronouncement upon the newly adopted 18s. ratio. However, if any single factor can be chosen which was responsible for the "atrophy" of the Bombay Cotton Mills, it was the exchange factor, which not only (1) enabled Japan to reap a *double* advantage of Yen depreciation *plus* rupee appreciation, varying between 16 and 28 per cent, but (2) by reducing the purchasing power of the masses in India injured the local market and (3) destroyed Bombay's supremacy in some of the overseas markets particularly China. The exchange factor also largely explains why Bombay, whose cost expectations, contracts, and capital purchases, were based on the 16d. ratio suffered more than the up-country centres, which had no foreign markets to compete in, whose capital equipment was of recent date and which secured numerous

[5] *Ibid.*, p. 74.
[6] Keynes, *Treatise on Money*, Vol. I.
[7] *Report*, 1927, pp. 74-75.

other advantages which will be mentioned later.

It is not my intention here to enter into a detailed criticism of the Board's *Report* of 1927, but only to bring out as clearly as possible the undoubted facts (1) that the cotton industry was handicapped by the exchange factor, that the Tariff Board were aware of this but (2) that in making their recommendations, they did not make any allowance for this factor, and (3) that the attention of the Government was drawn to "unfair competition" only arising from backward labour conditions in Japan. However, the Government would not take action even on that basis and allowed things to drag on till April 1930. The specific duty of 1½ annas per lb. on all imported yarn or 5 per cent *ad valorem* if value was in excess of Rs. 1-14-0 per lb., was meagre solace under the circumstances. The piecegoods were left untouched and this made conditions worse.

III

The Belated Amends

In July 1929, Mr. G. S. Hardy was appointed to examine the possibility of substituting the system of specific duties in place of the *ad valorem* assessment of cotton piecegoods. He was also asked, *inter alia*, to investigate "what changes have taken place since the Tariff Board reported, in the volume of imports, classes of goods imported and the extent and severity of external competition with the products of the Indian Mills". Mr. Hardy's findings were:—

(*a*) That a change to a system of specific duties would be undesirable.

(*b*) As regards external competition, Japan's progress since the Tariff Board reported had been rapid and uninterrupted. (*It could not have been otherwise*, in view of the observations in the previous sections on the enormous advantage to Japan due to the exchange factor, among other things).

Soon after Mr. Hardy's Report was published, the Government held joint discussions with the representatives

of the industry. As a sequel, the *revenue* duty on piecegoods was raised from 11 to 15 per cent *ad valorem* in April 1930 coupled with an additional (protective) duty of 5 per cent on all cotton piecegoods imported from countries other than the U. K. with a minimum specific duty of 3½ annas per lb., on plain grey goods whether produced in the United Kingdom or elsewhere. In raising the basic duty from 11 to 15 per cent, the Government made it clear that it was dictated by considerations of revenue only and that the addition of the protective duty was proposed partly in order to provide a temporary shelter under which the cotton textile industry, especially in Bombay, might be able so to reorganise itself as to be in a position "to start again with restored health and a new lease of life on its normal course of development" and partly in response to a message from His Majesty's Government asking that "the serious effect of the proposals in England might not be lost sight of". The preferential rates were necessary in view of the fact that Japan was the principal competitor at whose hands the Indian industry suffered most during the years 1923—30, and that, in regard to British goods, firstly, there was no effective competition in most lines and, secondly, large quantities of British goods had been replaced already by Indian manufactures. The minimum specific duty on "plain grey goods" was proposed, first because these goods form the staple production of the Indian and especially of the Bombay Mills; secondly because it was in this class that competition from abroad was most keenly felt; and thirdly because the Indian Mills as then equipped were capable of producing nearly the whole of the country's requirements except in one or two lines.[8]

The protective duty on yarn, which was levied three years earlier, to equalise costs in view of the labour conditions in Japan were continued in spite of the new labour law in Japan which came into operation in July 1929 regulating hours of work for female labour. The Tariff Board had already pointed out in 1927 that inferior labour conditions were not peculiar to Japan but were also prevalent in China and the Southern

[8] Cf. *Report*, 1932, pp. 4 ff.

States of the United States of America.[9] From 1928-29 onwards, there were large imports of yarn from China; and hence the duty on yarn was retained in the Cotton Textile Industry (Protection) Act of 1930.

It was obvious that in adopting the above measures, the Government was mainly influenced by two considerations: (1) firstly, the anticipated budget deficit in 1930—31 of Rs. 4 crores; and (2) secondly, the growing conviction that the cotton industry was badly treated since 1923 as a result of the do-nothing policy followed. An honest estimation of the steps taken must reveal that in imposing these duties, the Government were only making a tardy reparation to the harassed industry. The nature of the new tariff was the same as that of what is called a "reconstruction tariff" such as the one recently imposed in Great Britain to assist Lancashire to set its house in order. It had avowedly no reference to any "infant industry" argument as such. The Indian industry was, indeed, thankful for little mercies, but it is fair to point out that had it not been for the exchange handicap of the period following 1923, the industry would not have to rely upon the Government's grudging munificence for this kind of "reconstruction".

IV

Anti-dumping Duties

Even before the above proposals were formulated in India, the world, including India, had already come under the

[9] *Vide Report*, 1927, pp. 175-76. The Board observed: "It should be pointed out a further complication arises from the fact that, if a differential duty is imposed against Japan on the ground of inferior labour conditions, it would appear logically to follow that it should also be imposed against China where labour conditions are inferior to those in Japan and also against the United States, which also has not ratified the Washington Convention and where, in some of the Southern States, there is no limitation of the number of hours and no prohibition of the employment of female labour at night". It is necessary to mention this, because critics think that inferior labour conditions in China were "a fresh ground" newly discovered as an excuse for the continuation of protection!

influence of the severe depression which began by the end of 1929. The depression impoverished the Indian agriculturist, who is the principal consumer of Indian cotton goods, and led to the accumulation of serious deficits in the Government's budget, which themselves necessitated the higher duties. At the same time, political controversies developed into the non-co-operation movement of 1930-31, which included *Swadeshi* as one of the planks of its programme. The effects of protection on the cotton industry, therefore, are obscured by the interaction of two other forces, viz., *Swadeshi* and the depression, one helpful and other obstructive in its effects. As the Tariff Board of 1932 point out "in attempting to estimate the effect of the protective duties imposed in 1930 on the cotton textile industry in India, we find ourselves confronted, on the one hand, by the insuperable difficulty of assessing the relative influence of the Tariff, the general economic condition of the country and the political situation in reducing the volume of imports".[10] To meet the enormous deficit disclosed in 1931-32, the Government imposed an additional duty of 5 per cent on piecegoods and increased the duty on artificial silk-yarn to 10 per cent; in September, again, by a supplementary measure, the Government imposed an additional surcharge of 25 per cent of the duty in each case on textile imports. Thus, at the time of the Tariff Board Enquiry in 1932, the principal duties were as under:—

Cotton twist and yarn. ...	6¼ per cent. *ad valorem* or 1⅞ annas a lb. whichever is higher.
Cotton piece-goods.	
(*a*) Plain grey—	
(*i*) of British manufacture ...	25 per cent. *ad valorem* or 4⅜ annas a lb. whichever is higher.
(*ii*) not of British manufacture ...	31¼ per cent. *ad valorem* or 4⅜ annas per lb. whichever is higher.
(*b*) Others—	
(*i*) of British manufacture ...	25 per cent. *ad valorem*.
(*ii*) not of British manufacture ...	31¼ per cent. *ad valorem*.

[10] *Report*, 1932, pp. 5-6.

Meantime in July 1932, the Board was directed to make an immediate enquiry "into the allegation that cotton piece-goods not of British manufacture were being imported at such a price as to render inoperative the protection contemplated by the duties imposed in 1930," *i.e.*, into the alleged "Exchange dumping". The Board found that the *depreciation of the Japanese Yen* since the beginning of 1932 had led to a remarkable increase in the imports of piecegoods at inordinately low prices. They pointed out that the only competing country where currency had depreciated seriously in comparison to the rates prevailing when protection was granted was Japan and in view of the Anglo-Japanese Convention of 1904 (which conferred the most-favoured-nation treatment upon Japan), they, therefore, recommended that the duty on all piecegoods not of British manufacture be raised from 31¼ per cent to 50 per cent *ad valorem*, the minimum specific duty on plain grey goods being at the same time raised to 5¼ annas per lb.[11]

From the following Table (III) it will be clear that the exchange factor has again been a source of great damage to the Indian Cotton Industry.

[11] The figures given by the Board for the rupee-yen exchange at successive stages during the period 1930—32 are as follows:—

	Rupee	Yen
Gold Parity	136·6	100
March, 1930	136·6	100
September, 1930—August, 1931	137·4	100
September, 1931—December, 1931	179·1	100
January, 1932	144·5	100
February, 1932	135·9	100
March, 1932	121·8	100
April, 1932	120·7	100
May, 1932	119·6	100
June, 1932	114·8	100
July, 1932	106·5	100

It will be seen that from February, 1932, onwards, the yen fell below its customary parity and by July, 1932, fell by Rs. 29 per 100 yen.

Largely as a result of the fall of the Yen the total monthly imports of cotton piece-goods rose from 11·9 million yards in June, 1931, to 15·2 million yards in May, 1932, and to 28·2 million yards in June,

TABLE III[12]

Japanese Exchange Rates

(Mitsubishi Bank Quotations on London and New York)

	On London (s. d.) Maximum	Minimum	Average	On New York ($) Maximum	Minimum	Average
1931	3/0.0	2/0.3	2/2.0	49.4	34.5	48.8
1932	2/1.5	1/2.6	1/7.1	37.0	19.9	28.1
1933	1/3.0	1/1.8	1/2.5	31.3	20.1	25.4
1934	1/2.4	1/1.8	1/2.1	30.8	28.4	29.7
1935	1/2.2	1/1.9	1/2.0	29.4	27.8	28.7

In June 1932, the average Yen-sterling rate was 20.07d. per Yen; subsequently it fell down very steeply to about 14d. per Yen; and at present it has been fairly stable at that level. This means that since the Board reported in 1932, the depreciation of the Yen has proceeded apace amounting to a total fall of about 42% in terms of sterling and the rupee. A 42% fall in the Yen would ordinarily necessitate an increase of 75% in the duties.

However, by the time the new duty of 50 per cent *ad valorem* came into force, the Yen depreciated still further as described above and the Government had in June 1933 to raise the "non-British" *ad valorem* duty from 50 per cent to 75 per cent and the *specific* duty from 5¼ annas per lb. to 6½ annas per lb. Immediately after this, the Indo-Japanese Trade Convention of 1904 was revoked by the Government of India. This led to a fresh trade agreement with Japan.

1932, an increase of about 27% and 135% respectively.

It is worth noting, here again, that instead of taking Rs. 153.6 as the correct gold parity for 100 yen, on the 1s. 4d. basis, the Board once more adopted the lower value and made recommendations accordingly, probably on the belief that the ratio had by then settled down. Secondly, instead of counteracting the influence of the exchange factor alone, they considered the fall in the price of cotton as also relevant and made allowance for it in arriving at 50 per cent, as the necessary duty (see pp. 12-13 of the *Report*, regarding Additional Protection, 1932).

[12] Table from *Japanese Trade and Industry*, p. 31.

Under the new Agreement, the duties were brought down to 50 per cent again with the specific minimum duty also to the previous level of 5¼ annas per lb., while the imports of Japanese piecegoods were regulated on a mutual quota basis against the exports of raw cotton to Japan.[13] At present, the duties remain at the same level.

V

The Claim to "Substantive Protection"

The Tariff Board Enquiry of 1932 was one which went into the pros and cons of the question of the cotton protection and for the first time clearly enunciated the principles on which the scheme was to be based. The object of the 1926-27 Enquiry was mainly to ascertain the causes of the depression in the industry at that time, with special reference to conditions at Bombay and Ahmedabad, to consider how far the depression was due to the competition of other countries, in the home and export trade, and to what extent protection was necessary to "safeguard" the industry for the time being. The object of the 1932 Enquiry, on the other hand, was to consider (1) how far the claim of the Indian industry to protection was established, *i.e.*, (2) how far it satisfied the conditions laid down by the Indian Fiscal Commission. With these terms of reference, the Board went into the whole question very thoroughly and arrived at the conclusion that *the claim to a "substantive protection" was established.* The grounds on which the Board stated this conclusion are worth re-stating, as there is a common misconception about the position of the Cotton industry as an "infant industry".

(1) The Tariff Board begin by pointing out that it was recognised by the Fiscal Commission that even in cases where the conditions laid down in paragraph 97 were not satisfied by an industry, a claim to protection might still arise "if the industry was one of sufficient national importance". Under

[13] The question of the Indo-Japanese and other Trade Agreements has been dealt with later. *Cf.* Chapter XVIII.

this condition, ultimate dispensing with protection may or may not be possible, the burden being "a necessary contribution by the country to the safeguarding and promotion of these interests."[14]

(2) The first condition of the Fiscal Commission's formula, the Board opined, was fully satisfied by the Indian industry. In regard to raw cotton, India had a virtual monopoly of the short-staple cotton necessary for the inferior quality of cloth, the United States of America and Chinese cotton not being sufficient to meet outside demand. As regards long-staple cotton, although at present some portion of the country's requirements has to be obtained from abroad, "a sufficient quantity of this class of cotton" above a staple of $\frac{7}{8}''$ was being grown in India. They further stated that absence of long-staple cotton was no bar to protection and that it was misleading under the conditions of manufacture prevailing in India to regard the cotton textile industry as being composed of entirely separate branches according to the class and kind of cloth woven, and to look upon each branch as a separate "industry as regards the claim to protection."[15] Further, they observed that they did not feel justified "in any case in applying to the Indian industry *a condition which is not fulfilled by her two chief competitors*, since both the United Kingdom and Japan depend on imported cotton for the whole of their requirements." Moreover, the production of long-staple cotton itself depended upon the existence of a section of the industry producing yarn and cloth of finer counts. Between 1925 and 1932, the output of raw cotton necessary for 24s. to 40s. had nearly doubled itself and this the Board considered was due to protection afforded to that section of the industry since 1930.

Coming to the mill stores, such as China clay, magnesium chloride, zinc chloride, starch, Epsom salts, etc., the Board pointed out that most of these were now being produced in India and three of these materials, *viz.*, magnesium chloride, zinc chloride and Epsom salts were protected by tariffs and

[14] *Report*, 1932, p. 107.
[15] *Ibid.*, p. 109.

their progress was largely dependent upon the cotton textile industry itself. A large portion of the textile machinery and tools were being produced in India to supply the local industry. Clearly, then, the existence of the cotton industry was a factor of great importance to the development of these subsidiary industries. The *mutual interdependence of protected industries and the cumulative character of industrial growth* were well brought out in this connexion.

As regards the presence of a large domestic market, the extent of the Indian market was so enormous that, in spite of large reductions in her imports of textile goods, India was still the biggest single market for Japan and the United Kingdom.

However, electric power was a little more costly in India than in Japan. One estimate fixes it at Rs. 6.85 per 400 lbs. of yarn in Japan as against Rs. 8 in Bombay, and Rs. 10.96 per loom in Japan as against Rs. 20 in Bombay, both figures being calculated at gold parity. "The cost of power per unit of cotton goods is largely a question of efficiency of production, of which the determining factor is the efficiency of labour." In 1926-27 the Board noted that 0.725 anna per unit was the charge in Bombay as against a rate of 0.54 anna in Osaka at the then rate of exchange; since then, however, the charges have been brought down considerably on a representation by the Bombay Mill-Owners' Association.

The greatest disability of the Indian industry as compared with Japan, in the Board's opinion, was in respect of its labour. According to the estimate of a Japanese expert, Mr. Sasakura, the production of cloth per weaver in Japan was about 3½ times as great as in Bombay. Most of the textile labour in Japan is female labour; the wages paid there are not much higher than here but while the average number of looms attended to by a woman worker in Japan is *six*, the average number in Bombay is *two*. Mr. Sasakura also stated that "in Japan a sider attended to 600 spindles for a wage of Rs. 1-14-6 a day with an efficiency of 90 per cent, while a spinning boy in Bombay looked after 181 spindles for a wage of Re. 1 per day, with an efficiency of little over 80 per cent."[16]

[16] *Ibid.*, p. 111.

The labour cost of weaving per lb. in Bombay is 15 per cent lower than in the United States of America, the labour cost of spinning one lb. of yarn in Bombay is half of that in the Oldham Mill. Thus the Indian industry, according to the Board, has a considerable advantage over both America and Lancashire, in view of the relation between wages and labour efficiency. The lower labour costs in Japan arise not only from the low wages paid there (in comparison to United States of America and Lancashire) but also from the double-shift system prevalent there, which not only increases the earning power of the machinery but also wears out the machinery before it is obsolete.[17] The Tariff Board in 1926-27, among its various suggestions, recommended that the efficiency should be improved by nationalisation; accordingly, in 1927-28, "Efficiency" schemes were introduced which met with opposition on the part of labourers.[18] The Board estimated that if one man could attend four looms, the total cost would fall by 20 per cent; if three, by 17 per cent. Potentialities in this direction are considerable, but the co-operation of labour is a *sine qua non* of progress. In Japan, the "general prevalence of marked group spirit" which is sustained by the social traditions in the country and the system of compulsory education as also of physical and technical training helped progress in labour efficiency.

(3) In regard to the second condition of the Fiscal Commission that the industry is "not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country", the Tariff Board held the view that, if, on the basis of the costs of mills of average efficiency, the Indian industry is "unable to meet foreign competition unaided, the second condition is substantially satisfied".[19] The figures for costs, profits, prices, etc., are given in later sections of this Chapter. It is amply borne out from these figures that the Indian industry, *as a whole*, has not been able to make

[17] This was the view of Mr. Arno Pearse quoted by the Tariff Board, *loc. cit.*, pp. 112 ff.
[18] Culminating in the strikes of 1928-29.
[19] *Ibid.*, p. 116.

its ends meet in the face of foreign competition, and that from a *pragmatic* point of view, the second condition of the Fiscal Commission was amply satisfied. The Tariff Board's examination,[20] which was based upon the fortunes of "representative" mills and not "marginal" mills, therefore strengthens this conclusion still further.

The special position of Bombay was considered by the Board in this connexion, in view of the fact, which has been stressed by every Board before and since, that the demand for protection emanated largely from Bombay. The Board, however, deprecated the idea of leaving Bombay to its own misfortunes to suffer for its past failures, remarking that "the unique position of Bombay in the Indian Cotton Textile Industry makes its difficulties a matter of concern to the whole industry."[21] The Board noted the fact that Japan in the overseas market and the up-country mills in the internal market, were generally replacing Bombay. In this connexion, therefore, the question arises whether a comparatively "adult" industry like the Bombay cotton industry deserved to be protected. *The Board unequivocally answered this question in the affirmative*, pointing out that the Fiscal Commission also recognised that an industry may stand in need of assistance "as a result of some temporary deterioration or atrophy," and that an industry might receive protection *at any stage*, provided the second condition was satisfied. In addition to the causes of the "atrophy" which were mentioned by the Tariff Board in 1926-27, they suggested three more causes which had come newly into operation: (*a*) the adverse competition of Japan helped by the general adoption of the "warp stop motion on looms" and the automatic looms, whose impact on the Indian market was too sudden to be readily borne; (*b*) secondly, the general economic depression which "adversely reacted nearly on all industries", and (*c*) thirdly, the "unfair competition" of Japan due to the depreciation of the Yen.

(4) The third condition of the Fiscal Commission requiring an applicant industry eventually to be able "to face

[20] *Ibid.*, pp. 116 ff.
[21] *Ibid.*, p. 118.

world competition without protection", was held to be incapable of immediate fulfilment "unless under such items as the cost of labour very substantial reductions are effected." The real purpose of protection, according to the Board, was that it would ensure a stable return and security from foreign competition so as "to enable the more efficient mills in the country to undertake further development and extension and thereby create more active competition within the country." I think, on the whole, in this respect the hopes of the Board have been justified by later events, and, as will be seen in subsequent sections, new mills, utilising modern machinery, unburdened by war-time over-capitalisation, equipped with plant purchased at lower prices (helped by a higher ratio), enjoying the advantages of adjacent internal markets and readily available supplies of raw materials, and operating in the interior of the country comparatively less disturbed by foreign competition, and, lastly, paying a lower scale of wages than prevalent in the older centres of Bombay and Ahmedabad,—have sprung up all over the country, which will be able to meet foreign competition much more easily. The slow process of "natural selection" and survival of the fittest has already begun.

(5) However, perhaps, the weightiest ground on which the Board based their conclusion was that the cotton textile industry represented "important national interests."

Firstly, the enormous direct and indirect employment of labour ceased. In 1929-30, the average daily number of persons directly employed in cotton mills in India was 614,000. The number has increased considerably since then. Allowing for the proportion of women and children employed, the total number of persons dependent on the cotton mill industry was estimated by the Board at 1½ millions. To this must be added the number of people who are dependent upon the handloom industry—for which the estimate of the Board was between 2½ millions and 10 millions. The scheme of protection gives safeguards to both the mill and handloom industries from external competition. True, the handloom industry mostly caters for counts below 20s. but Japan's competition in this field is quite keen; moreover, there is a great interaction of prices of higher and lower quality goods.

Secondly, there is an enormous amount of capital invested in the cotton industry by Indians. In 1929-30, the total paid-up capital and debentures amounted to nearly Rs. 45 crores taking both British India and States. If we add to the loans, deposits and advances, corresponding mainly to the working capital, we get a total amount of Rs. 80 crores, making an annual contribution of Rs. 4 crores to the national income.

Thirdly, the importance of the industry to the cotton cultivator. This may be gauged from the detailed figures of mill consumption of Indian cotton given later. The export demand for Indian cotton depends upon the American cotton crops and upon the price parity at Liverpool and other centres. In India, however, there is an assured market for Indian cotton; for, the entire system of the Indian cotton industry is tuned to the utilisation of the short-staple cotton, and cotton is the most valuable commercial crop in India.

A fourth factor mentioned by the Board was the connection of Bombay and the Bombay Province with the textile industry involving the well-being of the labouring classes, and their socio-economic stability. If the textile industry collapsed, it would give a permanent setback to the prosperity of the people of that Province.

VI

Criticisms Answered

I have reproduced the above conclusions of the Tariff Board at some length, because the protection of the Indian cotton industry has come in for a good deal of criticism. The main arguments advanced by the critics are somewhat as follows:—

(1) That the industry could have developed further without protection, as it had done since its inception on the basis of a small revenue duty, and that the industry was not an "infant" industry but a full-grown adult.

(2) That the causes of the depression or "atrophy" of the industry since 1923 were other than those which would require tariffs to remedy them and that these

causes should have been eradicated by internal reform, rationalisation, etc.

(3) That, as a matter of fact, the Government were not willing to give protection to the industry, but that the pressure brought by the Bombay mill-owners was too much for them.

(4) That, in consequence of protection, the Indian consumer of cloth has suffered and that his interests have been sacrificed to bolster up an inefficient industry.

(5) Finally, that protection has adversely affected the hand-loom industry.

Now most of these arguments are partly drawn from the usual free-trade *répertoire* and partly based upon a malicious interpretation (if not misinterpretation of the facts). In what follows, therefore, I shall attempt a critical examination of the cotton protection in the light of these and other criticisms.

(1) As regards the first point, that the industry could develop substantially without much protection prior to 1926 and that, therefore, there was no need for protection, we may as well admit that the development has been possible because of very special natural advantages, helped by occasional factors of great importance, such as (*a*) the fall of the rupee exchange from 1873 to 1893, which conferred a protection of from 25 to 100 per cent; (*b*) the *Swadeshi* movement at various stages of the growth of the industry from 1895 onwards; and (*c*) the isolation of the Indian market due to the War of 1914-18. But having admitted that this growth has been achieved without fiscal protection, must we also jump to the conclusion that protection was not necessary under any circumstances whatsoever? This conflict, as a matter of fact, is ever present in the formula of Discriminating Protection itself and I shall revert to it in a later chapter. A fact, which should lead us to the view that the case for protection is made out, can be used by the critics for just the contrary purpose; in their view, if the cotton industry, in brief, has the necessary natural advantages, this is no reason for protecting it from collapse owing to unfair foreign competition, but, on the contrary, for exposing the industry to the full rigours of that competition!

Now the corollary, that if the cotton industry was an "adult" industry, it does not require protection, is already answered by the Tariff Board who pointed out that even an "adult" industry, if it is in trouble, owing to causes over which it may or may not have control, is entitled to protection, if it is a *national* industry of great importance.

(2) This brings us to the "atrophy" of the industry during 1923-26. I have already stated in previous sections some of the principal causes of this. It has been said that it was due to the lack of caution on the part of the Bombay mill-owners during the War period and to a wild desire on the part of the shareholders to obtain high dividends, which were the main causes of the "atrophy". The "atrophy" itself, however, is not doubted and must be clearly emphasised because a false impression exists in some quarters that the mill-owners are still filling their coffers with profits:—

TABLE IV

Financial Position of the Bombay Mills

Year	Capital paid-up (in Rs. lakhs)	Net profit or loss* (in Rs. lakhs)	Dividend (in Rs. lakhs)	Percentage of dividend to paid-up capital
1917	7,65	3,02	1,69	22.2
1918	8,10	2,28	1,91	23.7
1919	9,40	6,15	3,77	40.1
1920	16,98	10,10	5,98	35.2
1921	17,83	8,46	5,34	30.0
1922	17,96	3,87	2,94	16.4
1923	19,18	33,	93	4.9
1924	19,28	2,42	60	3.1
1925	19,20	2,87	43	2.2
1926	18,95	1,92	42	2.2
1927	18,08	11	61	3.4
1928	17,15	2,95	28	1.7
1929	13,72	2,29	23	1.5
1930	13,43	2,37	19	1.4
1931	13,18	1,06	18	1.4
1932	13,63	1,61	18	1.4
1933	11,06	1,30	12	1.1
1934	11,32	69	21	1.9
1935	11,77	92	20	1.8

* After allowing for statutory depreciation.

It will be seen from Table IV that the "atrophy", so far as Bombay is concerned, has been a long-drawn-out affair. The losses have been met out of Reserves and partly out of managing agents' commissions. Between 1924 and 1935, the Reserves were brought down from Rs. 12,13 lakhs to Rs. 4,23 lakhs only, while between 1926 and 1935, the managing agents gave up a total commission amounting to Rs. 54 lakhs, their loss of interest was Rs. 1,08 lakhs, and loss incurred by them through guaranteeing loans amounted to Rs. 75 lakhs. In addition to this, the share-holders had to bear enormous losses owing to mills being forced into liquidation or owing to capital reconstruction. The number of Bombay Mills was reduced from 80 (working) to 68 (working) between 1924 and 1935.[22]

The troubles of the cotton mills have been attributed by critics to (*a*) over-capitalisation including "watering-down" of capital, (*b*) the absence of technical experts on the Boards of Directors, (*c*) inadequate equipment of machinery, (*d*) want of internal economies and lastly, (*e*) the managing agency system. However, the Tariff Board themselves have admitted that in recent years much capital has been written down. The Tariff Board in 1926-27 had observed that one of the most obvious defects of the mill organisation in Bombay was over-capitalisation and had suggested drastic writing down of capital. Much was done since 1926 and a number of mills reduced their capital. Thus 11 mills reduced their capital from Rs. 8·82 crores to Rs. 4·6 crores between 1926 and 1931; 68 mills in 1931 had a capital of Rs. 13·18 crores as compared to 77 mills having Rs. 18·96 crores in 1926; this was partly due to liquidation but more particularly due to writing off.[23] It must be remembered, moreover, that the so-called "watering-down" was due largely to the inflated prices at which machinery and property were acquired in the earlier years in the 16d. regime. The new up-country mills, which purchased their plant at the lower levels, prevailing after the ratio of

[22] Report of the Bombay Millowners' Association for 1937, pp. 184-85.

[23] The capital of 64 mills in 1935 was only Rs. 11.77 crores.

18d. cheapened foreign imports and during the depression, were for this reason better placed than the Bombay mills.

As regards the efficiency of the mill equipment, the Tariff Board as early as 1926 held that "speaking broadly, the use of old machinery can hardly be held to have affected the fortune of the mill industry in India, except to a very small extent."[24] In recent years, however, owing to several adverse factors, many mills have not been able to make adequate provision for depreciation and consequently there is reason to suppose that the equipment of plant has suffered to some extent. This, however, is a factor which itself depends upon the circumstances of the industry, which have been none too bright between 1923 and 1936.[25]

The principal causes of Bombay's increasing difficulties have been as follows:—

(*i*) Higher costs of production due mainly to *higher labour costs*,[26] *i.e.*, relative to the efficiency of labour; frequent labour strikes; refusal of workmen to accept wage cuts or, in the alternative, the efficiency systems (including the four-loom system). Many of these defects are being gradually mitigated. In recent years, wages have been reduced by means of occasional wage-cuts.[27] The fall in wages in Bombay between 1926 and 1937 amounted to about 16 per cent.[28] But, in the meantime, wages were also reduced in other Indian centres and in Japan. The index of actual daily wage-payments in Japan declined from 100 in 1929 to 64.8 in 1933 (a fall of 35.2 per cent) while owing to increased output per

[24] *Report*, 1927, p. 90.

[25] Cf. the Murray Tariff Board, 1935-36, (*Report*, p. 55): "Even then, however, the figures would show that the Bombay mills overhead are not making sufficient profits to cover the depreciation allowances to which they are entitled and the large amounts required for interest on borrowed money".

[26] Dr. Dey estimates that "the labour costs in Bombay (per loom per day) are as much as 24 per cent higher than those in the up-country centres". (*Op. cit.*, p. 132).

[27] *Bombay Labour Enquiry Committee Report*, pp. 20 ff.

[28] This is the estimate of the Bombay Millowners' Association. The Trade Unions assert that the wage-cut ranges between 25 to 36 per cent. Cf. the *Labour Report*, *sup. cit.*, p. 20.

head, the percentage of wages paid to gross output declined from 9.3 per cent in 1929 to 6.5 per cent in 1933, and average wage per man declined from 10 sen in 1929 to 7 sen in 1933.[29] The economic depression and rationalisation of industry brought about in Japan an absolute as well as relative decline in wages through the replacement of male by female labour and of high-waged operatives by cheaper labour. This general tendency naturally forced down the entire scale of wages.[30]

(*ii*) The growing competition of up-country and other Indian centres in respect of the internal markets and that of Japan and, to some extent, the U.K. and China in the external markets. The internal competition will be clear from Table V:—

[29] Figures from *Japanese Trade and Industry*, p. 97.

[30] *Ibid.*, p. 97. Here are further figures for wages per day in the Japanese textile industry:—

Wages per day in Cotton Textile Industry (in Yen per head)

	Fixed Wages.				Actual Earnings.			
	1929	1931	1934	1935	1929	1931	1934	1935
Males	1.337	1.198	1.117	1.115	1.611	1.469	1.376	1.346
Females	.851	.705	.623	.627	1.005	.769	.675	.670

These figures should be an eye-opener to those who assert that the effects of the exchange depreciation ultimately raise wage and other costs and that the advantage due to depreciation of exchanges is only temporary. It will appear from the above table that Japan has succeeded in bringing about wage-cuts at the same time that she enjoyed all the advantages of exchange depreciation and prices in the world market. As regards the real wage position, the Japanese labour is definitely worse off today as compared to ten years ago. The cost of living index in Japan rose from 100 in 1929 to 112 in October, 1938. In Bombay, on the other hand, the real wage position was very much better. The Bombay index fell from 100 in 1929 to 65 in 1934 and then rose to 68 in 1935, 68 in 1936, 70 in 1937 and 69 in 1938 (with 1929 as base year). See later, for a brief discussion of the wage-position in the Bombay Presidency at present.

TABLE V

Recent growth of the Industry

(Internal Competition)

	Number of mills during the year ending 31st August				Production of yarn (Millions of Pounds)				Production of Woven goods of all descriptions (Millions of Pounds)			
	1919	1927	1932	1938*	1918-19	1936-37	1931-32	1936-37	1918-19	1926-27	1931-32	1936-37
Bombay ...	85	83	81	69	306	345	322	277	177	265	264	251
Ahmedabad	51	66	78	78	73	106	152	163	71	105	149	170
Rest of India ...	122	187	180	233	236	256	492	614	102	169	259	361
Total ...	258	336	339	380	615	807	966	1,054	350	539	672	782
Percentage of Bombay to all India ...	32.9	24.7	23.9	18.2	49.7	42.8	33.3	26.3	50.6	49.2	39.3	32.1
Ahmedabad to all India	19.8	19.6	23.0	20.5	11.9	13.1	15.8	15.5	20.3	19.5	22.2	21.7
Rest of India to all India ...	47.3	55.7	53.1	61.3	38.4	44.1	50.9	58.2	29.1	31.3	38.5	46.2

* Excluding Burma.

It will be seen from Table V, that Bombay is gradually losing its hold on the Indian market which is being largely catered for by mills in the rest of India. Bombay's share of mills fell from 32.9 to 18.2 per cent between 1919 and 1938, of production of yarn from 49.7 to 26.3 per cent, and its production of piece-goods from 50.6 to 32.1 per cent between 1919 and 1937. Ahmedabad and particularly the rest of India expanded its business enormously. This enormous all-India growth would not have been possible but for the system of protection. But of this more anon. The essential point to be remembered here is that the internal market is being increasingly exploited by the new mills in North and South India. From the viewpoint of the ultimate stability of the industry, this is indeed a desirable development, because it is bound to improve the staying power of our textile industry as a whole. This operation of the law of the "survival of the fittest", however, cannot be allowed to operate drastically, as proposed by some critics. There are efficient mills in Bombay as well as elsewhere and there are many mills in the former place which, owing to causes enumerated above, are in a weak competitive position. But that does not mean that the Gordian knot of the textile industry's problem is to be cut by leaving the weaker section of the industry to take care of itself and by exposing it to the full blast of unfair foreign competition. As the Tariff Board said in 1932: "In deciding whether a claim to protection has been established by the Indian cotton textile industry, it is necessary to take into account the fact that the need for assistance is not felt equally keenly in all the centres where it exists. We feel, however, that even if it were established that the need for assistance was confined to the Bombay mills, the case for protection would still require consideration. Bombay is the largest single centre of production and represents nearly 40 per cent of the total production of piece-goods in India (now, 32 per cent)...... It necessarily follows that any reductions in prices which Bombay mills may be compelled to make will have an immediate reaction upon the level of prices throughout the main consuming centres."[31] If, moreover, the Bombay centre

[31] *Report*, p. 107.

were allowed to collapse, the immediate consequence of this would be that both Japan and the United Kingdom would replace it through their wide-spread selling organisations which are largely subsidised by their respective Governments.[32]

Secondly, Bombay's trade connexions with the export markets in foreign countries, like Ceylon, Java, Borneo, Iraq, Straits Settlements, Aden, Egypt, East Africa, Burma, etc., are a national asset, as providing employment to thousands of workers on this account. Even at the expense of some sacrifice, therefore, it is necessary to support Bombay among other centres of the industry. The competition of Japan, in particular, however, is so fierce that it is doubtful whether the other centres would have been able to develop so rapidly if it were not for the legitimate protection against unfair competition. And, hence, *we must regard the development of the other centres as really an offshoot of protection initially intended for the Bombay centre.*

As regards foreign competition, the extent of this will be seen from the following table:—

TABLE VI

Imports of Piecegoods (excluding Fents)

(In million yards)

Year	United Kingdom	Japan	Total from all countries	Mill Production in India
1922-23	1,440	108	1,577	1,725
1923-24	1,306	123	1,467	1,702
1924-25	1,599	155	1,801	1,970
1925-26	1,275	217	1,540	1,954
1926-27	1,457	244	1,767	2,250
1927-28	1,530	323	1,936	2,357
1928-29	1,442	357	1,900	1,893
1929-30	1,236	562	1,882	2,419

[32] In this connection, we may note the Trade Facilities Act in the U. K. as well as various safeguarding measures including protection, bounties and the financing of reconstruction, undertaken by the British Government to assist Lancashire. In Japan also, the Government helps the industry by shipping and other subsidies.

Year	United Kingdom	Japan	Total from all countries	Mill Production in India
1930-31	520	321	882	2,561
1931-32	376	340	753	2,990
1932-33	586	579	1,193	3,170
1933-34	415	341	761	2,945
1934-35	552	374	944	3,397
1935-36	440	496	947	3,571
1936-37	334	417	764	3,572
1937-38	265	306	591	4,084
1938-39	205	425	647	4,269

It will be seen from the above table that the share of the United Kingdom and other countries is diminishing continuously, while that of Japan has been on the up-grade. The definite increase in Japanese imports dates from 1923 onwards; on the other hand, British imports rose between 1922 and 1930 but fell later owing mainly to Japanese competition. The main reason, why the United Kingdom lagged behind Japan is, in my view, to be found in the depreciation of the Yen in recent years (which came on top of the increasing Japanese efficiency and the depression). The United Kingdom was able to push its piece-goods better owing to the appreciation of the rupee in terms of sterling after 1923-24. The unfair competition of the United Kingdom and Japan due to the exchange advantage led to comparative stagnation of the Indian industry during 1922-29. In the inferior sections of the trade, however, Japan has been the principal competitor of India, and it was mainly owing to the protective measures taken after 1930 which seems to have enabled the Indian industry to register a healthy growth.

(*iii*) The most important cause, however, of Bombay's decline and the comparative retardation of the growth of Indian cotton industry, was undoubtedly the handicap imposed by the foreign exchange factor, *which by itself would justify a protective duty of about* 12½ *per cent against the U. K. and one of nearly* 100 *per cent against Japan* seeing that the rupee sterling ratio was pitched up to a new level of 18d. as against the original 16d. and that the Yen-rupee exchange fell from nearly Rs. 1-8-0 to Re. 0-12-0 per Yen, during recent years. Other factors, of course, modify this minimum necessary.

It has been suggested that rationalisation would help the cotton textile industry and would go a long way to increase its competitive position. The Indian industry has already adopted[33] up-to-date and improved methods of manufacture, such as the "continuous process" machinery in the Blow Room, vacuum stripping in the Card Room, high-drafting, lengthening of frames, high-speed winding and warping, automatic looms and improved machinery in the dyeing and finishing departments, in many mills. The efficiency systems introduced include:—

(1) Two hopper feeders per man.
(2) Two scutchers per man.
(3) Two men per three heads in the Drawing Department.
(4) Two roving frames per man.
(5) Two sides per man on ring spinning frames.
(6) Three, four or six looms per weaver in the Weaving Department.

Statistics of night shift working indicate convincingly not only the pressure of demand on the industry, but the growing spirit of rationalisation:—

TABLE VII

Night Shift Work in Cotton Mills

	Bombay		Ahmedabad	
	Mills	Hands	Mills	Hands
1930 December ...	16	3,592	18	6,954
1931 December ...	29	15,327	20	5,954
1932 April	32	21,246	25	9,785
1936 December ...	35	22,301	37	16,748
1937 December ...	46	45,480	57	33,527

The Trade Unions in Bombay and elsewhere are apprehensive that rationalization would mean fewer men employed. This, however, is a static and incorrect view of the matter. In spite of the introduction of rationalising methods, the industry is actually employing more men than ever before.

[33] Cf. Answers to Supplementary Questionnaire of Bombay Labour Committee sent by the Millowners' Association, Bombay.

The employment factor will ultimately depend upon the competitive position of the industry in the local and world markets. It is not possible that this competitive position would be up to the mark, if co-operation is not forthcoming from labour in the cotton textile industry. The Fawcett Committee on this question observed: "We are of opinion that there is an obligation on the Labour representatives to use their best influence with the workers to co-operate with the millowners in the gradual introduction of efficiency methods for the progress of the industry on which not only the employment of spinners and weavers depends, but with which the welfare of the whole community in Bombay is so largely bound up." It is to be recognised that the millowners cannot force the rationalisation schemes on an unwilling labour community, in view of the experiences in the strikes during 1924, 1925, 1928, and 1929.

(3) The third insinuation, that the Government of India yielded to the pressure of textile interests against its own convictions, is a mischievous one. Anyone, who has the patience to go through the volumes of the Tariff Board *Reports* and *Evidence* as also the persistent refusal of the Government to do anything till 1930, *i.e.*, till the industry's sufferings became absolutely unbearable, will see what an up-hill task the industry had in convincing the Government of the indubitable merits of its case. However, it is false to state that the Government yielded to the industry's demand: the real motive force which brought about higher import duties was not argument or persuasion but the financial difficulties of the Government itself during the period of depression following 1929!

VII

Imperial Preference incompatible with Protection

From the foregoing discussion, it will have been clear that the difficulties of the Indian cotton industry, in so far as they were *structural* were partly of *earlier* origin and, perhaps, remediable by internal reform, but that in so far as *environmental* factors were concerned,—and *undoubtedly these were predominant during* 1923-37—the difficulties were not of the industry's

own creation. Depreciation of exchanges, freight dumping, ordinary dumping, State aid in regard to trading or credit facilities—and such other things played a great part in the upheaval of the cotton industry; Japan was undoubtedly involved in this, but, to a lesser extent, the United Kingdom also was favourably placed *vis-à-vis* the Indian industry. In view of these considerations, it cannot be said that the protection granted to the cotton industry was either theoretically or practically unjustified. The "reconstruction" tariff of 1930 had, as Sir George Rainy put it,[34] avowedly "a limited objective for a limited period" in view, *viz.*, the objective of "the preservation of the industry or an important section of it and not its ultimate development". As Sir H. P. Mody said, the measure was calculated to "arrest the decline in our fortunes and to give us a little breathing time, within which to carry on and complete the re-organisation on which we are engaged."

Subsequent measures were definitely and admittedly adopted as mainly "anti-dumping" measures, which were only making a *belated reparation* for the harm allowed to be inflicted by the unfair competition of both the United Kingdom (assisted by a ratio of between 2s. 3d. and 1s. 6d.) between 1920 and 1937 and Japan whose position in this respect has already been fully examined. The recommendations of the Tariff Board in 1932 are quite explicit on the point, so far as Japan is concerned. In regard to the United Kingdom, the duties have been all along "revenue" duties and its incidence falls upon a different class of consumers, while they have mostly relevance to *non-competitive* lines. If, under the shelter of these "revenue" duties, the industry also made progress in finer yarns and piece-goods, such benefits must be said to be *incidental*.

The Tariff Board of 1932, which voted in favour of "substantive" protection to the cotton industry, also emphatically stated that the need for protection against the United Kingdom imports was as great as for that against Japan. It is,

[34] Cf. *Legislative Assembly Debates*, his speech on 28th February, 1930.

however, necessary to thresh out this question for two main reasons: firstly, the entire fiscal policy of the Government of India is being increasingly shaped on the basis of Imperial Preference, or Empire Free Trade, or business partnership or whatever you may call it; secondly, it is often supposed that there is a stronger theoretical case for protection against Japan (with its inferior labour conditions and depreciated exchange) than against the United Kingdom, whose labour costs are higher than in Japan and which has not enjoyed so much export advantage due to depreciation of currency in terms of the rupee.

In the first place, then, we must stress the fact that competition between the U.K. and Indian mills is increasing year by year. As early as 1927, the Tariff Board stated[35] that, according to the estimate of the Manchester Chamber of Commerce, "cloth containing warp or weft between 30s. and 40s. forms about 40 to 45 per cent of the total export of cloth from the United Kingdom to this country." Owing to the growing production of Indian mills in this range of counts, it is obvious that competition with the United Kingdom is a real one. Secondly, it is quite consistent, as the Tariff Board pointed out in their Report of 1932, with the fundamental principles laid down by the Fiscal Commission, that assistance should be extended to the Indian industry "so as to enable it to undertake the production of finer counts." The Board state: "We have already explained in paragraph 102 our view that the grant of protection to the manufacture of piecegoods *from imported cotton* is not merely not inconsistent with the conditions laid down by the Fiscal Commission but must be regarded as a logical consequence of the grant of protection to the manufacturer of goods from Indian cotton. Even if it were held that protection should be confined to the manufacture of goods from Indian cotton, we should still recommend that in view of the *indirect competition* which arose from goods of the finer counts, the protective duties should be applied to such goods also."[36] The Board

[35] *Report*, 1927, p. 40.
[36] *Report*, 1932, pp. 145-46.

went even further and observed that protection was necessary "as a definite measure for the encouragement of the manufacture of goods from imported long-staple cotton."

The next question to be decided is, whether, if the Indian industry is to be granted protection at all for plain grey as well as white bleached and other goods, as also for finer counts, there should be differentiation between the duties to be imposed on imports from Japan and those from the U.K. The Tariff Board of 1932 had proposed a scheme of specific duties on four staple classes of piece-goods: plain grey, bordered grey, bleached, and printed, dyed and coloured piece-goods,—with a separate rate of duty for each class.[37] The rates were calculated by them according to the difference between the fair selling price for the Indian industry and the nett price realised by the mills. The price realised, they explained, did not necessarily correspond to the price of imported goods of any class or country of origin but reflects competition from all sources. This empirical method of import duties was, however, not accepted by the Government, who preferred to wait till the special Board (under Sir A. Murray)[38] reported on the preferences to be granted to the U.K. industry. It is history now that the "Ottawa" spirit has pervaded the subsequent measures taken by the Government and that this has led to an adulteration of the scheme of protection since 1932 onwards. Under the circumstances it is difficult to separate out the effects of the working of protection from those of bilateralism. However, to return to the question whether preference is compatible with protection, the Tariff Board of 1932 which went into the merits of protection for cotton textiles did not fully answer this question. I have already stated in the previous chapter on the Steel protection that a preferential system is *not* compatible with any variety of protection. The reason stated there, which is equally true of the cotton industry, is that the benefits of the consumer's burden must accrue in their entirety to the national indus-

[37] *Ibid.*, p. 139.

[38] For the recommendations of this Board, see Chapter XVIII, Section V.

try. *The whole idea of equalisation of import prices and fair selling prices is illogical from this viewpoint.* If the more serious competitor is Japan and if the prices of yarn and piece-goods will be determined by the ex-duty import prices of Japan *plus* the higher import duty and not by the import prices of the U.K., then a preferential duty means that a portion of the consumer's burden, such as there is, is frittered away *in putting a premium upon the comparative inefficiency* of Lancashire. If the preferences, therefore, are abolished, not only will the *prices of these goods not rise* (as Japan's prices will be the determining factor), but the whole benefit of the consumer's sacrifice will be available to the Indian industry. At present, behind the higher tariff against Japan, the U. K. only shares the market with India. *This "partnership", however, brings no gain to India* of any kind: on the contrary, the development of India's own cotton industry is prevented.[39]

VIII

Enhanced Import Duty on Raw Cotton

In presenting the budget estimate for the financial year 1939-40, Sir James Grigg foresaw a deficit of Rs. 50 lakhs. To meet this deficit, he proposed a fresh duty of half an anna per lb. on all imports into India of foreign cotton in addition to the existing duty of half an anna. This duty clearly impinged upon the imports of long-staple cotton which is being increasingly used by the Indian mills for the production of finer counts of yarn. The deficit itself was, according to many, a deliberate "invention", for, as the facts proved later, the revenue for the import and excise duties on sugar was seriously under-estimated by the Finance Member. The import duty on long-staple cotton hit the Indian industry particularly hard. The imports of raw cotton fell from 539,700 bales (of 400 lbs. each) in 1938-39 to 468,500 bales in 1939-40. It has been stated that this reduction in the imports of foreign cotton

[39] For a discussion of the bilateral agreements affecting the cotton industry such as the Indo-British Trade Agreements, the Mody-Lees Pact, 1933, and the Indo-Japanese Trade Agreements, 1933 and 1937 see Chapter XVIII.

could not have been caused by the duty, and also that the duty was necessary in the interests of and has benefited the Indian agriculturist. Whether or not, however, the duty has led to a reduction of imports, the fact remains that it constitutes a differential burden on the Indian manufacturers to which there is nothing corresponding in the case of their foreign competitors, *viz*., Lancashire and Japan. In this connection it has been argued that the American subsidy of 1½ cents per lb. given from 1939 onwards counterbalanced the effects of the duty. It is not realised, however, that the benefits of that subsidy were reaped equally alike by all the cotton manufacturers of the world. Moreover, as the then President of the Federation of Indian Chambers of Commerce and Industry, Dewan Bahadur C. S. Ratnasabhapati Mudaliar pointed out: "The doubling of the cotton duty has definitely put an extra burden of 4 per cent on the cost of production of fine counts of yarn and cloth with which Japanese and other imports come in direct conflict in the Indian market......With the doubling of the import duty on raw cotton, the manufacture of yarn of fine counts and cloth would not be in receipt of any protection. But, in effect, other countries will stand to gain a subsidy for their imports." Thus, the effect of the enhanced duty was to encourage the imports of foreign yarn into India in lieu of the foreign cotton. Figures show that this forecast of the Federation was correct: between 1937 and 1939, the imports of yarn of higher counts increased as under:

TABLE VIII

Imports of Twist and Yarn (lbs. 000)

	1937	1938	1939
I Grey (unbleached)			
Nos. 41-50	437	176	729
Above 50	2,938	3,129	5,120
Twofolds (doubles)			
Nos. 51-80	2,218	2,657	5,544
Above 80	242	393	697
II White (bleached)			
Nos. 41-50	10	20	37
Above 50	1,184	705	522

	1937	1938	1939
Twofolds (doubles)			
Nos. 51-80	207	76	162
Above 80	34	19	52
III Coloured			
Nos. 41-50	4	2	90
Above 50	241	149	153
Twofolds (double)			
Nos. 51-80	2	16	42
Above 80	1	6	3
Total ...	7,518	7,348	13,721

It will be seen from the above table that the imports of finer yarn nearly doubled between 1938 and 1939, (from 7,348,000 lbs. to 13,721,000 lbs.). In the same period, the imports of mercerised cotton yarn (twofolds) increased from 10,041,000 lbs. to 14,694,000 lbs. India is particularly interested in the manufacture of grey twist and yarn, in which sections the harm was particularly great. The imports of finer yarn have inflicted a double injury: in the first place, upon the Indian manufacturer, and, in the second, on the producer of long-staple cotton in India whose internal market was shattered by these imports. Thus it is that good intentions pave the way to hell!

IX

Recent Trends of Progress

The recent growth of the industry is shown in Table V so far as the number of mills, production of yarn, and production of woven goods of all descriptions is concerned. Recent increases in the production of piecegoods will be found in the following table:—

TABLE IX

Production of Piecegoods in Mills

(In millions of Yards)

Year	Grey and bleached	Coloured piecegoods	Total piecegoods
1926-27	1577.2	681.5	2258.7
1927-28	1675.0	681.6	2356.6
1928-29	1409.6	483.7	1893.3
1929-30	1814.9	604.1	2419.0
1930-31	2003.5	557.6	2561.1
1931-32	2311.1	678.8	2989.9
1932-33	2423.3	746.9	3170.2
1933-34	2265.1	680.1	2945.2
1934-35	2641.6	755.8	3397.4
1935-36	2773.4	797.8	3571.3
1936-37	2761.7	810.2	3571.9
1937-38	3190.6	893.6	4084.2
1938-39	3337.1	932.2	4269.3
1939-40	3086.3	926.2	4012.5

It will be seen that the total increase in the production of piecegoods in Indian mills in 1938-39 works out at about 91 per cent as compared with 1926-27 (the first enquiry of Tariff Board), 67 per cent as compared with 1930-31 (the beginning of anti-dumping protection), and 33 per cent as compared with 1922-33 (the first year of Ottawa). The years 1934-35, 1935-36, and 1936-37 have been years of stagnation, in spite of the bilateral and other agreements. The industry, however, registered sudden progress during 1937-39. This must be attributed to the weakening of the Japanese competition owing to the Sino-Japanese war and its reactions.

The production of yarn in Indian mills is shown in the following table for years 1926-27 to 1937-38 :—

TABLE X

Yarn Spun in Indian Mills

(Millions of lbs.)

Counts		1926-27	1927-28	1928-29	1929-30	1930-31	1931-32
1 to 20 ...	...	515.7	494.80	382.0	493.4	513.7	562.1
21 to 30 ...	...	248.3	263.1	213.0	271.8	259.7	293.9
31 to 40 ...	...	27.7	33.7	37.5	46.3	60.7	71.1
Above 40	...	11.5	11.1	10.0	15.3	27.3	34.0
Wastes ...	...	3.9	6.2	5.7	6.7	5.8	5.2
Total	...	807.1	808.9	648.2	833.5	867.2	966.5

Counts		1932-33	1933-34	1934-35	1935-36	1936-37	1937-38
1 to 20 ...	...	599.4	547.5	573.2	594.1	592.0	607.9
21 to 30 ...	...	297.5	254.8	282.3	287.6	268.8	302.8
31 to 40 ...	...	77.2	75.4	95.5	112.0	123.0	152.5
Above 40	...	36.6	37.4	43.9	58.5	61.8	85.1
Wastes ...	...	5.7	5.6	5.8	6.0	8.0	11.2
Total	...	1016.4	921.1	1000.7	1058.2	1054.0	1159.5

As compared with 1926-27, the figures for 1937-38 show an increase of 352 million lbs. or just over 43 per cent. It will be noticed that the increase has been about 18 per cent in 1s.—20s. range, 23 per cent in the 21s.—30s. range, 463 per cent in 31s.—40s. range and 673 per cent in the above 40s. range. This means that there is a progressive improvement in the quality of the yarn produced, and counts above 30 and 40 are receiving the increasing attention of the mills. In this respect, Bombay City and Island, Ahmedabad and Madras are ahead of the other centres.[40] There is no doubt that this is a development which needs to be encouraged, if

[40] Figures below show recent increases:—

	Bombay City and Island		Ahmedabad		Madras	
	1935-36	1937-38	1935-36	1937-38	1935-36	1937-38
31s—40s ...	111	154	33	39	21	29
Above 40s	69	96	26	33	2	10

in the future Indian mills are to become self-reliant as regards the production of piecegoods from finer yarns. If with a moderate duty of only 5 to 6¼ per cent, yarn of higher counts is being produced in such an increasing measure, an adequate measure of protection would undoubtedly stimulate yarn production in the higher counts to still greater proportions. In view of the suggestions of the Tariff Board of 1932 in favour of encouraging the production of cloth in this section, there is no reason why this should not be done.

As a matter of fact, even the imports of yarn have been steadily falling in recent years in consequence of this growth:—

TABLE XI

Imports of Yarn into India

(In million lbs.)

Counts	1932-33	1935-36	1936-37	1937-38*	1938-39*
1 to 20 ...	0.9	0.2	0.3	3.4	6.9
21 to 40 ...	22.0	14.9	5.3		
Above 40 ...	6.4	8.7	8.5	6.2	5.5
Twofolds, etc.	15.8	20.7	14.4	12.3	24.0
Total ...	45.1	44.5	28.5	21.9	36.4

* Excludes Burma.

In 1935-36, the imports of yarn stood at 44.5 million lbs. and in 1937-38 they dropped to 21.9 million lbs. only. It is apparent that this fall has been brought about by the great advance made by the indigenous mills in the production of finer yarns.

Similarly, the exports of cotton twist and yarn, which had fallen during the depression revived in the last three years:—

TABLE XII

Exports of Twist and Yarn from India

(In thousand lbs.)

	1935-36	1936-37	1937-38	1938-39
India	9,668	12,137	40,124	37,960
Bombay	9,161	11,195	28,093	27,487

As regards the imports of piecegoods, we have already considered these under Table VI above and noted the salient features. It is obvious from the figures in Table VI that during the last two years both the U.K. and Japan have been unable to export their former quanta to India. In the case of the U.K., the price factor is undoubtedly responsible, while the preoccupation of Japan with the Chinese "incident" and consequent difficulties in regard to shipping facilities and exchange control have led to these results. This has given a respite to the Indian mills to push on with their production of piecegoods. Bombay at one time used to have a very large market for yarn in China and a considerable one for its piecegoods in Africa, on the Arabian littoral, and in the South Asian countries. The China yarn market was lost to Japan and also to the Chinese indigenous industry in the decade following the War. Thus exports of piecegoods had registered a decline in recent years,—however, during the last three years, owing to the reasons stated above, Indian exports have again made headway in these markets:—

TABLE XIII

Exports of Cotton Piecegoods from India

(Million yards)

Post-War (5 years' average)	1931-32	1933-34	1935-36	1936-37	1937-38	1938-39
245.8	104.6	56.4	71.2	101.6	241.2	177.0

The year 1937-38, thus, was a "bumper" year for the Indian industry. These results have been achieved owing "partly to increased efficiency with lower cost of production and partly to preoccupation of competitors with producing materials for internal requirements."[41] The increased efficiency is due, no doubt, to the various rationalisation measures introduced, but it is particularly to be attributed to the greater economies available from double-shift working and the increased scale of production especially in the Bombay mills.

[41] Annual Market Review, 1936, p. 19, quoted by the Labour Enquiry Committee, Bombay.

The present position of the industry can be gauged from the following figures:

TABLE XIV

Present Position of the Industry

	1914	1937	1938
Mills	271	370	380
Spindles	6,779,000	9,731,000	10,020,000
Looms	104,000	198,000	200,000
Hand employed	260,276	417,000	438,000
Cotton consumed (in 392 lbs. bales)	2,143,000	3,147,000	3,663,000

If, however, we judge the progress of the industry from the viewpoint of the average number of spindles and looms per mill, it will be seen that the industry has made little progress since the War. The following table illustrates this:—

TABLE XV

Size of Average Mill

	1914	1937	1938
Average Spindles per mill	25,014	26,300	26,368
Average Looms per mill	383	532	527
Average Spindles per loom	65	54	50

This is largely due to the decline of the large-scale mills of Bombay and, on the other hand, the establishment of new small-scale mills in the rest of India. There is nothing intrinsically unsound in this, because in each country the most economic size of a unit is determined by the conditions of demand and of production. In Japan, *e.g.*, the average size of cotton mills is much smaller than in India or Lancashire.[42]

[42] Cf., in this connection two interesting articles: N. Sundara Rama Sastry, "The Size of Cotton Mills in India", in the *Indian Journal of Economics*, July 1938, and its continuation by G. V. Krishnaswamy in the *Sankhya*, December 1938.

X

Raw Material and Wages

Turning to the raw material of the industry, there has been a sharp slump in the cotton since 1937 March as will be clear from the following table:—

TABLE XVI

Cotton Prices at the end of each Month

	Broach	Oomra	Bengal	New York Middling spot	Liverpool Middling spot
	Rs.	Rs.	Rs.	Cents.	d.
March ... 1937	258	236	202	15.00	8.14
April ... ,,	233	213	184	13.51	7.22
June ... ,,	231	213	184	12.54	6.94
August ... ,,	190	172	145	9.38	5.33
November ,,	162	146	127	8.04	4.64
January ... 1938	170	153	133	8.52	4.87
April ... ,,	163	143	120	8.78	4.78
July ... ,,	167	149	126	8.72	4.99
January ... 1939	154	141	118	9.04	5.17
February ,,	147	136	113	8.99	5.05

The world statistical position of cotton is decidedly weak. The glut has been caused by the American bumper crop of 1937-1938. The surplus of American cotton on August 1, 1938, was estimated at 13·5 million bales compared with 6.2 million bales a year ago. As regards the rest of the world, the surplus amounted to 10 million bales. Thus there is a total estimated carry-over of 23.5 million bales, probably the biggest in the history of the cotton trade. In spite of restrictionism, it is not likely that the conditions will improve for a considerable time, unless there is a simultaneous movement in the consumption, which does not seem likely. So far as India is concerned, the carry-over is not disconcertingly serious. At the beginning of the current season the carry-over was estimated at about 2,350,000 bales, which is less than half a year's consumption. But it is

obvious that so long as the world carry-over is not absorbed it is unlikely that the Indian cotton would register any improvement. Reduction of acreage in India, by itself, will not help cotton prices to an extent which will compensate the Indian producer for the reduction in output. So far as the cotton-power is concerned, as Sir Purshottamdas Thakurdas put it "the Indian cotton grower not only makes no profit out of his toil for a year in the field but that he is actually out of pocket."[43] The recent Reports of the Costs of Production Enquiry, which was conducted under the joint auspices of the Indian Central Cotton Committee and the Imperial Council of Agricultural Research, have shown that cotton has not been a paying proposition for the agriculturist in recent years. At present prices, the position must have worsened considerably.

The Bombay Labour Committee have prepared a composite weighted index for cloth prices per lb. ruling in Bombay during 1933-37.[44] I reproduce the figures for that index in the table below:—

TABLE XVII

Cloth Prices in Bombay

1933 ...	100
1934 ...	99
1935—	
Jany.—March ...	99
April—June ...	97
July—Septr. ...	96
Octr.—Dec. ...	95
1936—	
Jan.—March ...	94
April—June ...	93
July—Septr. ...	93
Octr.—Dec. ...	92
1937—	
Jan.—March ...	94
April—June ...	97
July—Septr. ...	96
Octr.—Dec. ...	96

[43] In his annual speech as Chairman of the East India Cotton Association, December 1938.

[44] *Report*, p. 67.

The steadiness in the prices of cloth in the face of the fall in cotton prices indicates that the internal demand has been a sustaining factor. This has, no doubt, created a fairly large profit margin during 1937, although it must be conceded that, to some extent earlier purchases of cotton at higher prices might have affected the margin. The year 1937 has been a memorable year for the cotton industry, as the fall in Japan's imports of cloth has coincided with a fall in the prices of the raw material as also with a year of prosperity for the country as a whole caused by the international recovery.

It is wrong, however, to suppose that these halcyon days will last for long. (1) In the first place, a low level of cotton prices is a distinct handicap on the industry, because the fall in the prices of cotton reduces the purchasing power of a large section of the population and this reacts upon the fortunes of the industry later on. (2) Secondly, since the fall in the price of cotton is a common advantage shared by the foreign competitors also, the *ad valorem* duty[45] must become less and less protective, and imports will later depress the prices of cloth if internal competition has not already done it. (3) Thirdly, the gathering clouds of troubles ahead are now quite obvious. Japan has already been giving increasing attention to the Indian trade since the end of 1938. The Bombay Labour Committee contended[46] that as Japan was exporting goods under a quota system, it will not lead to much harm. However, as compared to imports during 1937-38, Japan, under the Protocol of 1937, will still be able to export an additional amount of nearly 100 million yards of piecegoods, while imports of yarn are unrestricted.[47]

Thus it will be seen that although during the last two years the Indian Industry has been able to recover enough margin as a result of the fall of cotton prices on the one hand and reduction of Japanese competition on the other, the future is not particularly bright. In view of the wage increases of

[45] This applies particularly to yarn above 50s. and cotton piecegoods and fabrics other than grey piecegoods.

[46] *Loc. cit.*, p. 77.

[47] During the year 1939-40, owing to the peculiar conditions created by the war, the prices of raw cotton as well as of cotton manufactures

between 9 per cent to 14 per cent recently proposed in the Bombay Presidency and of 10 to 12 per cent in the U. P., and in view of similar forthcoming wage increases in other Provinces, moreover, it does not appear likely that the Indian cotton industry will be able to provide itself with sufficient profits after making provision for depreciation, etc. The industry has been during the major part of the last decade incurring continual losses on the whole. The last two years have come in as a boon to the industry and have enabled it to set its house in order. However, the various Labour Committees have based their conclusions on the recent success of the industry rather than upon its profit-taking during the last decade or so. It is far from my mind to disparage wage improvements, where these are deserved by increased

have gone up; but as will be seen the percentage rise is greater in the case of the raw material than in that of the finished product:—

Comparative Position of Prices of Raw Cotton and Cotton Manufactures

	Rs. per Candy	Index of Prices of Cotton Manufactures
1939		
January	153	103
February	150	103
March	153	102
April	154	101
May	170	99
June	161	99
July	154	97
August	159	97
September	201	111
October	198	107
November	247	126
December	307	135
1940		
January	279	131
February	266	124
March	243	121
April	255	126
May	191	124

efficiency. Actually, however, there is no proof that labour efficiency has increased to the extent supposed. In Japan, in particular in recent years owing to the introduction of various efficiency measures, the output per workman has increased considerably. On the other hand, as shown in earlier sections, the wages of the female labourers in Japan have not increased, but have actually been reduced.

It is significant that the Bombay Labour Enquiry Committee omit to consider the real wage position of the Bombay labourers, stating that they "do not propose to make any estimates of the change in the real wage position mainly because we do not know in what manner the wage levels prior to the cuts were related to the cost of living." It is unfortunate that the Committee failed to consider this aspect of the matter, and took umbrage under the fact that the exact relation between wage levels and cost of living was not known. However, since 1926, the cost of living index had been registering a falling trend and in fact the wage cuts were themselves made in a period of severe depression, in view of the rising real wages. There is no proof that the wage cuts reduced the real wages, but from the evidence of costs of living indices it appears that in actuality the real wages in spite of the wage cuts had actually risen. Thus, there was no reason why the wages should have been raised without reference to the competitive position of the industry *vis-à-vis* the Japanese industry.

XI

Conclusion

In conclusion, it may be stated that the Cotton Textile Industry is the biggest national industry of India, which represents a total capital investment of over Rs. 42 crores, which gives a direct employment to no less than 450,000 workers (including 150,000 women), and an indirect employment to perhaps as many in the subsidiary industries, and which is the biggest consumer of Indian cotton, responsible for the off-take of 2,900,000 bales out of a total production of 5 to 6 million bales. It is eminently fitted for catering for the Indian market, as the short staple cotton grown in India meets

the demand for the coarser cloth largely consumed in the country, while the production of finer cloths for the townsmen is now being encouraged by the cultivation of long-staple cotton. In the past, the industry has been handicapped by numerous factors like an adverse rupee exchange, exchange depreciation and dumping on the part of Japan, the depression, high railway freights, and an antipathetic financial policy on the part of the Government (who imposed such charges as an excise duty on cotton piecegoods and, recently, the import duty on raw cotton). Protection has been largely necessitated by the aggressive commercial policies of foreign countries. If the industry were allowed to work on an equal footing with the foreign competitors and were not unnecessarily handicapped, there would have been hardly any need for protection. The war has given another opportunity to the Indian cotton industry to set its house in order, to capture the entire Indian market and to strengthen its position so as to face the post-war competition without any repetition of the events which followed the last war.

CHAPTER V

OTHER TEXTILE INDUSTRIES

In this Chapter we shall study the cases of the two main textile industries other than the cotton industry, *viz.*, the sericultural industry and the woollen industry. Although protection was, in spite of the Tariff Board's recommendation, refused to the latter industry by the Government, and, therefore, it should be discussed later on in the Chapters dealing with the rejected applications, it is convenient to consider its case here, as the fortunes of woollens and worsteds, like those of silk, are bound up with those of the major textile industry, *viz.*, cotton. In fact, in the Indian Tariff (Textile Protection) Amendment Act, 1934 and some of the subsequent tariff legislation, the three industries were dealt with simultaneously. Owing to the enormous extent of the Indian market for the different classes of textile goods and owing to the possibilities of combining the different materials in what are called "mixtures", the question of providing specific protection to particular classes of goods has given rise to considerable difficulties.[1] Moreover, there is a continuous process of substitution taking place in the market for textiles as between cotton goods, silk goods, woollens and worsteds, artificial silk or rayon, and "mixtures", and, therefore, to some extent, the problem is to be regarded comprehensively as one whole.

I

The Sericultural Industry

"The sericultural industry," said the Tariff Board in their Report on the industry (1933), "differs from the majority of

[1] The Tariff Board on the Woollen Industry drew the attention of the Government to some loopholes in the tariff of this kind.

other industries whose claims for protection we have examined hitherto in that it is not an infant industry, but...... has been practised in India for the last two thousand years... A meticulous examination of the resources of the industry in raw materials, power, labour etc., which is generally required by the Fiscal Commission in the case of infant industries, is, therefore, not strictly necessary. The fact that the industry has lasted so many years, is still alive and supplies even now about half the total requirements of the country is *prima facie* evidence that these resources exist."[2] The only point to be carefully investigated was, according to the Board, whether the industry had a reasonable prospect of adopting the latest technical methods and receiving the Government assistance which had so much improved the competitive power of the Japanese and European industry.

In spite of the above considerations, the Board did state the general and special advantages enjoyed by India in sericulture. In the first place, the Board stated, a large portion of India lay in the "silk belt" (between 20 and 42 North Latitude) encircling the earth and comprising the important silk-producing countries, and the climate of India was suited, both as regards temperature and humidity, to the cultivation of mulberry and for the rearing of silkworms. As regards power supply, the sericultural industry did not require much power, and in Kashmir and Mysore, where electrical power was used for driving the reels in their filatures, such power was available at prices which compared favourably with charges made in other countries. The Board mentioned it as "one of the greatest advantages of the sericultural industries", in that it provided a useful and congenial subsidiary occupation for the small agriculturists. The average wage paid to labourers was much lower (about ⅓ of) than the standard wage paid in the principal competing countries, *viz.*, Japan, China, Italy and France. Further, as regards the market, the Board were of the opinion that "though it has been reduced somewhat by the present depression and the competition of artificial silk, the market, even if we discount

[2] *Report on the Sericultural Industry*, 1933, p. 136.

the possibilities of its regaining its old export trade, both for Indian raw silk and for its waste product would seem to be capable of almost immeasurable expansion."[3] In applying the second condition of the triple formula, the Board stated that it was not so much a case of *protecting* a new industry struggling against old established rivals in other countries, as one of *safeguarding* an old existing industry placed in grave jeopardy by the world depression and unfair foreign competition. The causes of the difficult situation of the industry were many. In the first place, the reduced purchasing power of the people caused by the depression, and the increasing substitution of natural raw silk by artificial silk, had made conditions already difficult. On top of that, the imports of Japanese and Chinese silk were largely assisted by the depreciation of the Chinese and the Japanese exchanges and by the active financial assistance given by the Governments concerned. In 1931 Japan, owing to her departure from the Gold Standard could drive off Chinese silk from the world market. The consequence was that the Chinese Government had to find an outlet for the accumulating stocks of silk in Canton and Shanghai, by subsidising exports. From 1932 onwards, this bounty-fed silk flooded the Indian market, as also the imports of cheap Japanese silk and silk substitutes helped by the depreciation of the Yen. Finally, with regard to the third condition, the Board stated, that as protection was required against unfair competition, it was difficult to forecast the time when the industry would be able to dispense with protection, for very much depended on the policies of the foreign Governments. The Board pointed out that the failure of the industry to withstand foreign competition was mainly due to "Government neglect", for, while other Governments, such as those of Japan, China, France and Italy took a continuous interest in the organization, research and marketing of the industry, the Government of India did practically nothing. Therefore, the Board laid the responsibility of re-organizing the industry on the shoulders of the Government and explained that the fulfilment of the third condition

[3] *Ibid.*, p. 142.

would itself depend upon such re-organization.

Owing to the question of the measure of protection required the Board calculated the fair selling prices of different qualities of Indian *Charkha* silk, which varied between Rs. 4-13-5 and Rs. 6-2-6, and the prices of imported filature silks, ranging between Rs. 3-11-0 and Rs. 5-3-0. The average distance between the two sets of prices was estimated at Rs. 2-6-0, which was, therefore, recommended as the measure of protection, in the form of a specific duty. The period of protection was proposed to be one of five years in the first instance, during which period the Indian industry would have an opportunity to reorganize itself. Further, in order to prevent the possibility of the import of raw silk in the shape of cocoons, they recommended that the same duty should be applied to cocoons also.[4]

Owing to the increase in the cost of raw material brought about by the higher duty on raw silk, naturally the silk weaving industry had also to be protected. In the case of the weaving sections, therefore, "compensatory" protection only was granted, and the Board stated that "to go further than this and to propose a measure of protection for the weaving industry beyond what is necessary to compensate it for the increase of duty on its raw materials is beyond the scope of our present inquiry."[5] Accordingly they recommended that the *ad valorem* duty on silk goods should be raised to 83 per cent; and that on silk mixtures to 60 per cent. Other changes recommended were a duty of Rs. 2-6-0 per lb., on silk yarns of all kinds, and a specific duty of Re. 1 per lb., on artificial silk yarn. They made further recommendations for improvements in technical methods sericultural education, marketing, etc., and suggested that the Government should grant financial assistance to the industry for these purposes.[6]

[4] *Ibid.*, pp. 150-169.

[5] *Ibid.*, p. 170.

[6] It is noteworthy that the Board quoted the expenditure incurred by the Japanese Government (of about Yen. 11,000,000 or Rs. 90,20,000) for the industry. The grant of Rs. 1 lakh ultimately made by the Government of India looks like a drop in a bucket as compared to that of Japan!

Finally, they suggested that the claims of the Indian silk industry on the British market should be taken into consideration at the time of contracting a trade agreement with Britain on a preferential basis.[7]

These proposals of the Tariff Board did not entirely find favour with the Government who introduced substantial modifications into the scheme of duties. In the Government's opinion, the handloom weaver who was the main consumer of Indian raw silk would be put at a great disadvantage if the price of his raw material went up as a result of the "heavy" protection proposed by the Board. This solicitude for the welfare of a rival indigenous interest is not a new one, so far as the Government of India is concerned; it makes wanton interference with protective tariffs look more virtuous and respectable. However, it must be pointed out that the Tariff Board themselves were fully conscious of the possible effects of their proposals on the handloom industry. They made the following remarks in this connection[8]:—

> "Our survey of the handloom industry suggests the following considerations. Any development of sericulture in India must depend upon the existence of a large and growing market. This market is now provided almost entirely by the handloom industry......Any measure of protection to the sericultural industry which results in increasing the cost of the weaving industry's raw material must increase the weavers' difficulties. We should hesitate to recommend any measure which might be injurious to an industry so widely spread. Indeed practically every local Government has protested against any raising of the duty on raw silk, *unless it is accompanied by an increase in the duty on imported silk manufactures* sufficient to compensate the weaving industry for the increase in the cost of its raw materials. We agree with this view and are *recommending that the duty on imported silk fabrics and mixtures be increased by an amount which will compensate for the increased duties which we are proposing on raw silk.*" (Italics mine.).

It is apparent from the above that the Tariff Board's idea was to give "compensatory" protection to the weaver

[7] It is important to note that neither the Ottawa Agreement nor its successors contain any provision granting preferential treatment to Indian silk in the U.K. market.

[8] *Report*, 1933, p. 115.

corresponding to the increase in the duties on raw silk. This was a procedure which would suggest itself to anyone; yet strangely enough the Government's solicitude for the handloom weaver had just the reverse effect ultimately, because during 1934-39 owing to insufficient protection and further exchange depreciation in Japan and China, and also some other factors, both sericulture as well as the silk-weaving industry suffered even more than before.

The Government raised further objections also: (*a*) Firstly, in their view, the Board, in calculating the duty, had allowed for a price for cocoons far in excess of that prevailing in what is the largest single raw silk producing area, *viz.*, Bengal. (*b*) Secondly, they agreed with the Board that the fiscal assistance required was more of the nature of *safeguarding* than of *protection*. But if this was the case, the proper course would be not to levy the duty at the level indicated by the difference between the import price and the estimated fair selling price (for, this procedure would amount to granting substantive protection) but to restore the competitive situation prevailing before the depression, when the new artificial factors of exchange depreciation etc., were absent. In their view, the situation was normal in 1928, after which date, they stated, the depreciation of the Chinese currency began.[9] So taking the prices of raw silk ruling at that date as the starting point, they made an arbitrary allowance for the effects of the depression, and they took the resulting figure as the "fair selling price" *i.e.*, the price which might have prevailed, if abnormal circumstances had not arisen. The extent of "safeguarding" required was then calculated by comparing this "fair selling price" with the price of imported raw silk in 1934. Accordingly the Government proposed the following duties:—

(*a*) On raw silk, 25 per cent *ad valorem* combined with a specific duty of 11½ annas per lb., (In the Select Committee of the Legislative Assembly the specific duty was raised to 14 annas, so as to conform to the latest prices).

(*b*) The same duty on silk yarn, thrown silk and warps.

[9] Cf. B. N. Adarkar, *History of the Indian Tariff*, pp. 41 ff.

(*c*) On spun silk yarn and coils, a duty of 25 per cent.

(*d*) *Ad valorem* 65 per cent on silk piecegoods.

(*e*) On silk mixtures, varying duties ranging from 25 per cent (or 3 annas, whichever was higher) per lb., and 50 per cent *ad valorem*.

(*f*) On artificial silk yarn, the existing revenue duty of 18¾ per cent was raised to 25 per cent or 3 annas per lb., whichever was higher.

It is easier to agree with the Government than with the Board over the procedure adopted to "safeguard" (as distinct from "protect") the industry. The Board, being asked to apply the triple formula, had no option but to follow earlier precedents and, after making out a case for "discriminatory" protection, had to compare the calculated fair selling prices with the import prices. However, if it was a matter of "safeguarding" and not "protection," it was clearly unnecessary to examine the industry with a view to "substantive" protection. The Government rightly held that the only proper course was to make allowance for the new and artificial factors which had arisen, especially during the post-depression period, and thus to restore fair competitive conditions. But, while agreeing with the procedure adopted by the Government, one cannot see one's way to admitting that, so far as the silk trade was concerned, 1928 was a *normal* year. The year 1928 was chosen probably because it was a pre-depression year. But the Chinese exchanges were depreciating long before this date. For example, in January 1926, the Hongkong exchange was at 28.15d., per Chinese dollar, while in 1928 it fell by about 4d. per dollar, and fluctuated between 24.36d., and 25.05d. It may be noted that the same exchange fell still further to an average rate of 17.2d. in 1933-34.[10] Thus it was wrong to assume that the year 1928 was a normal pre-depression year, if the idea was to compensate the Indian raw silk producer. Another factor of great importance to be added to the depreciation of the Chinese exchange prior to 1928, was the appreciation of the rupee itself between

[10] London and Cambridge Economic Service Memorandum 25, for October 1930, p. 24.

1924 and 1928 by about $12\frac{1}{2}$ per cent. Thus, it is clear that the total fall of the exchange between 1926 and 1928 was by about 24 per cent in terms of the rupee.[11] In view of this it is impossible to accept 1928 as a normal year. If a year such as 1924 or 1914 were taken as the normal year, it would have been different. Besides, it was wrong to suppose that the subsidisation of the silk trade by the Chinese and Japanese Governments began after 1928. The Tariff Board stated that since 1915 onwards Chinese silk was being imported into India at uneconomical prices.[12] Unfortunately, the Government concentrated their attention on the depression aspect of the situation only and ignored some of the fundamental factors which had been operating for long in the silk trade. Not only this, but what is far more important is that these fundamental factors *went on operating with growing intensity against India.* The Chinese and Japanese exchanges *continued to fall* till 1937, when the Hongkong dollar stood at 15d., and the Japanese yen at 14d., (as against a parity of 24.50d.). Thus the duties fixed on the flimsy basis of 1928, in the year 1934, went on becoming rapidly out-of-date in the following years. In a free country, (*e.g.*, in England) where national industries are paternally looked after by the Government, such steady deterioration would have been immediately checked by continuous adjustment of the tariff to the changing conditions. However, in India, as might be expected, the

[11] As regards the exchange rate between the rupee and the Shanghai tael, the following figures (Cf. Tariff Board Report on Sericulture, 1934, p. 25) are interesting. It will be seen that the fall of the Shanghai exchange between 1921 and 1928 was precipitous (about $38\frac{1}{2}$ per cent).

Rupees for 100 *Shanghai Taels*

December		December	
1921	280	1927	176
1922	235	1928	176
1923	237	1929	151
1924	224	1930	107
1925	210	1931	124
1926	168	1932	117

[12] Report on Sericulture, 1934, p. 26.

Government, after having arbitrarily fixed the duties on silk, lay supine till the next enquiry in 1938, and, as will be seen, even thereafter!

In 1938, the question of continuing the protection was referred to the Tariff Board again. The Board presented their Report in December 1938, but the Government only recently released it for publication, characteristically announcing that it "finds it impossible in the present position of uncertainty to form any decision as to a long-term policy."[13] As may be expected, the Board found, that, between the first enquiry and the second, the industry had experienced in an acute measure the consequences of dumping and depression. Production declined between 1931-32 and 1937-38 by as much as 22 per cent, while during the same period, the imports of raw silk and silk yarn increased by 64 and 36 per cent respectively. Moreover, although total Indian consumption increased from 4,339 million lbs., to 4,706 million lbs., in this period, the Indian industry's share of the home market fell from 64.8 per cent to 46.5 per cent. The Tariff Board clearly brought out the fact that in the five-year period of protection, dumping was aggressively practised both by Japan as well as China. They also stated that the costs of the Indian producer had considerably fallen, but the fall in the import prices (ex-duty) was far greater. In view of this, the majority of the Board came to the conclusion that a duty of at least Rs. 2-4-0 per lb., would be required to equate those prices with the fair selling prices for filature silk. They stated that the existing duty of 25 per cent *ad valorem*, plus the duty of 14 annas per lb., on the basis of tariff values for 1938 and 1939, worked out at about Rs. 1-13-0 per lb., which was very insufficient. The supplementary proposals of the majority of the Board were for: (*i*) a duty of 8 annas per lb., on silk fabrics; (*ii*) an increase of 6 annas per lb. in the duty on silk mixtures containing more than 10 per cent of silk and more than 50 per cent of

[13] The reference to the "present position" is, of course, to the position created by the war, as if earlier action was not feasible. The shelving of the Report is contrary to the spirit of the Commerce Member's recent assurance that conditions of protection would be liberalised.

silk and artificial silk; *(iii)* an increase of 10 per cent or 4 annas on silk mixtures containing more than 10 per cent artificial silk; *(iv)* a specific duty of Rs. 3-14-0 per lb. on silk yarn in place of the existing duty of 25 per cent *ad valorem* plus 14 annas a lb.; *(v)* increased Central grants of Rs. 3 lakhs per annum for the extension of research in sericulture and handloom weaving. The Board recommended that the period of protection should be not less than five years and that India, being the only important producer of raw silk in the Empire, should be encouraged to develop silk production by all means, the more so as silk was a very useful commodity in war.[14] It is a strange commentary upon the Government's military or economic strategy that they should have allowed the Board's valuable Report to be finally consigned to the waste paper basket after nearly sixteen months' rumination![15]

II

The Woollen Industry

The manufacture of woollen, as of other, textile goods has been practised in India from quite early times and in most parts of the country. Carpets, shawls, and *kambals* have been the chief products of a cottage industry which has given part-time employment to several lakhs of workmen, including shepherds and agriculturists. The Indian manufacturers of carpets and shawls attained great renown in the world in the pre-British days. The woollen handloom industry is estimated to provide employment to about 400,000 people. As regards the mill industry, the most important

[14] The minority of the Board, represented by Mr. N. N. Anklesaria suggested that, with the exception of the protective duties on real silk goods, all duties should be abolished. The "minority" appeared to have been unduly influenced by his concern for the consumer.

[15] In 1939, on the expiry of the first period of protection, the Government had already extended it for another year. In April 1940, the existing scale of duties was continued for a further period of two years, up to 1942.

centre is Cawnpore, where the first woollen mill was started in 1876. Although prior to the last war there were some large mills like the Dhariwal, Cawnpore and Bombay woollen mills in operation, it was during the last war that the industry received a direct impetus, as a result of which some new companies were floated mainly in Bombay. During 1924-29, however, some of the new mills went into liquidation as a result of intense competition from Italy and Japan. Italian shoddy blankets and tweeds and the cheap merino yarns and worsted piecegoods from Japan, being within the reach of the poor man's purse, offered the keenest competition in the cheaper classes of woollen goods for which there is ordinarily a large demand in India. The application for protection made by the woollen industry was referred to the Tariff Board in October 1938.

The Board dealt separately with the woollen and worsted branches of the industry and recorded its findings as under :

(*i*) *The Woollen Section*—As regards the supply of raw materials, the Board stated that the industry could derive an adequate supply of raw wool inside the country. Labour was no doubt inefficient, as in most other infant industries, but this was a drawback which, in course of time, would be overcome and should not be taken as debarring the industry from claiming protection. The peculiarity of the Indian market was that the demand was only a seasonal demand, being confined to the winter months only. This was in contrast with the European conditions. If the industry would be able to secure Government contracts, work would go on all the year round, thus leading to economies of production. As regards the second condition of the formula of Discriminating Protection, the Board concluded that the industry needed protection, as a result of temporary deterioration brought about by external factors. Finally, with regard to the third condition regarding the eventual ability of the industry to do without protection, the Board held that the fact that the industry had in the past, under normal conditions, been able to hold its own, was *prima facie* evidence that it would be able to do so again.[16] The Board accordingly recommended

[16] Report on the Woollen Textile Industry, 1935, para 60.

protection for the woollen section of the industry. The tariff proposed consisted of a specific duty of 4 annas per lb. combined with an *ad valorem* duty of 25 per cent on all woollen blankets. Further, a duty of Re. 1 per blanket was proposed in order to protect the handloom industry and the cheapest types of mill blankets, against the importation of very light rugs made of shoddy or mixed materials.[17] On shoddy goods, largely imported from Italy, the Board proposed a specific duty of Re. 1 per lb. or 35 per cent *ad valorem* (whichever was higher).

(*ii*) *The Worsted Section*—The Board stated that the raw material for the worsted branch had to be imported from abroad, but, in their view, this disadvantage was not to be overemphasized, as the worsted industry of the chief competing countries was in exactly the same position. Regarding the second condition of the formula of protection, the Board expressed the view that the industry was in danger of being crushed by foreign competition, and that it was in the interest of the country that it should be protected. The chaotic conditions in the world's foreign exchanges were principally responsible for the difficulties felt by the industry. It was impossible to foretell when those conditions would settle down and hence the Board could not say as to when protection could be safely withdrawn. They stated, however, that under normal conditions, the industry would be able to hold its own against every competitor, except possibly Japan.[18] Accordingly, the Board recommended protection for the worsted branch as well. As protection was chiefly required against Japan, who was able to dump cheap worsteds by virtue of her depreciated exchange, the Board recommended a duty of 77 per cent on Japanese imports. They further recommended that, if it was possible under the Trade Agreement, the protective duty might be fixed at 40 per cent and this might be coupled with an exchange compensation duty.

After receiving the Report of the Tariff Board in 1935, the Government shelved it for more than eight months and

[17] Ibid., para 82.
[18] Ibid., paras, 72-73.

finally, to the great disappointment of the woollen manufacturers, announced that they were unable to take any action on the Board's Report. They stated that the worsted section of the industry did not comply with the first requisite of protection as laid down by the Fiscal Commission because of its dependence on imported raw materials. It is surprising that the Government should have reiterated this objection in spite of the Tariff Board's clear and definite warning that the lack of the raw material could not be regarded as a competitive drawback, in view of the fact that England, Italy and Japan, the principal competitors of India, depended upon foreign supplies of the raw material, *viz.*, worsted. As regards the woollen branch of the industry, the Government refused to accept the Board's recommendations on the ground that a very important group of woollen factories, *viz.*, the Cawnpore and New Egerton woollen mills, had not tendered any evidence and that consequently the Board's conclusions did not apply to the industry as a whole. The Government, therefore, announced that they were prepared to give another chance to the group concerned to make representations so as to substantiate the case for protection, and that if the opportunity was not availed of, it would go by default. The action of the Cawnpore group of mills in not supporting the application for protection is somewhat mysterious. To this date, this group has not changed its attitude towards the matter, a circumstance which, to say the least, is most unfortunate and contrary to the interests of the industry as well as the country as a whole. It is well known that the Cawnpore group is dominated by British capitalists, who have recently pooled their resources in the new British India Corporation which holds a decisive number of shares in each of the concerns. There is no doubt as to the high efficiency attained by some of the mills in this group, and that probably was the cause of its strength. In all probability, too, if the rest of the Indian industry, including the handloom and small-scale concerns, collapsed, the situation thus created would not exactly be harmful to the Cawnpore group. However, the peculiar position under which one group of producers asks for protection while another group is indifferent or even opposed to protection, was not envisaged by the Fiscal Com-

mission. For example, in the match industry, it may not be in the interest of the Swedish Match Company (which has its local factory in India under the control of the Western India Match Company) that Indian producers should get protection, for what the Company might lose on the swings, it might gain on the roundabouts by importing from abroad. But would that be a valid reason why the industry should not be protected in the nation's interests? It is an interesting problem in fiscal policy whether a particular recalcitrant section of the industry can, for reasons of its own, hold up the progress of the whole by placing this sort of "veto" on it. The matter becomes particularly serious when it is the Indian section of the large-scale industry and a large body of handloom weavers who are called upon to sacrifice their future progress. The special circumstances which necessitated protection were most clearly explained by the Tariff Board. It was mainly the disastrous exchange policy pursued by the Government which created a new disadvantage of about 12½ per cent value and the exchange depreciation in Japan to the extent of about 50 per cent, which had given rise to the difficulties of the industry. On top of that, the Depression and the aggressive trade policies of competing countries came as further complications. The protection recommended by the Board was the result of these considerations, and was, more or less, of the anti-dumping variety. It was unfair that an important section of the industry, including the handloom weavers, should have been denied protection and exposed to the full blast of severe foreign competition, aided as it was by many artificial factors. The subsequent grant of Rs. 5 lakhs (spread over five years) made in 1936 by the Government for the benefit of the cottage branch of the industry in respect of technical advice and marketing looks like a consolation prize in the circumstances! While all over the world, protection of a more thorough-going type has sheltered and nursed not only the woollen industry but, in some cases, also wool,[19] and dumping and exchange depreciation have been the order of the day, it is most deplorable that the Government of India

[19] Cf. Taussig, *Some Aspects of the Tariff Question* (1931 ed.), pp. 474-90.

smug with its own peculiar *laissez-faire*, should have allowed a large indigenous section of the woollen industry to go to the wall. The credit must here, as in some other cases, go to the atmosphere of "Free Trade with a vengeance" which ruled in Simla during 1934-39, in spite of the accepted policy of protection.

However, as the following figures indicate, the Indian woollen industry has been able to record some progress of late, in spite of the Government's apathetic attitude, probably because of the increasing world demand for woollen goods caused by the preparations for war. It also indicates, to some extent, the prosperity of the large-scale branch of the Industry, which has taken firm root particularly in Cawnpore.

TABLE I

Imports of Woollen Piecegoods

(In Rs. 000)

Countries	Pre-War average	War average	Post-War average	1936-37	1937-38	1938-39
United Kingdom	1,46,44	1,21,56	1,53,84	37,74	40,95	22,88
Germany ...	39,83	3,02	7,13	5,48	5,42	2,09
Netherlands ...	3,09	1,26	3,61	2	8	3
Belgium ...	1,78	31	4,20	17	6	10
France	10,85	3,35	7,80	7	26	0
Italy	83	18	2,07	1,07	7,88	4,19
Japan	2	6,30	8,16	30,90	56,68	14,60
Other Countries	3,94	1,64	1,90	1,07	1,19	1,09
TOTAL ...	2,06,78	1,37,64	1,88,71	76,52	1,12,52	45,08

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CHAPTER VI

SUGAR

I

Introductory

The phenomenal growth of the sugar industry in recent years has been one of the most remarkable achievements of the policy of protection. In many ways this industry has far exceeded even the expectations of the Tariff Board in regard to its growth and success, and, apart from the fact that it has been able to attain the ideal of self-sufficiency of sugar supply for the country, it has become one of the three or four major industries of India which are in the vanguard of India's movement for industrialisation today. Critics[1] have of course, not been wanting to cavil at its growth, who would as readily have cavilled at its lack of growth if the industry had not lived up to expectations but had remained stagnant or unprogressive. Such critics generally proceed in an *a priori* way with the notion that Indian protectionism is rotten to its core and then seek arguments to justify this view. Anyone, however, who looks dispassionately at the immense strides which India has made as a sugar producer in the world, cannot but admit that, despite some structural and technical defects, which are bound to be associated with every expanding new industry, the sugar industry, as a whole, has made good its promise of success. Coming in a period of serious depression, this has been like a *deus ex machinâ* to sagging business, providing profitable opportunities of investment, while it has relieved unemployment to a very large extent in the two Provinces of Bihar and U.P. and supported agriculture by a general stimulus to sugarcane

[1] Particularly, B. N. Adarkar, *Indian Tariff Policy*, pp. 69 ff., and H. L. Dey, *Indian Tariff Problem*, pp. 238 ff.

and *gur* production. The fact that the industry developed under the shelter of protection to this extent even against the odds of a falling consumption due to the depression, of severe internal competition and of the inconsistent and step-motherly treatment accorded to it in the matter of the excise duty, is creditable to the industry. The artificial schemata of stationary states, which the orthodox freetrader would erect to discuss the success or failure of a policy of Protection, the notions of an *optimum* application of the "limited" resources in such a way as to maximise the national dividend by selecting the most profitable ends dictated by the international division of labour, are utterly unsuitable to a situation, in which *full* employment of those resources is not available, in which international division of labour itself has ceased to have any meaning owing to the world-wide ramifications of controlling and artificial measures, and in which each country is trying to dump its goods in another on well-known lines of discriminating monopoly. In a backward, agricultural country like India, the development of a manufacturing industry must necessarily be slow, slipshod or unhealthy, if it is not accompanied by a simultaneous growth of other industries, which may be calculated to raise the general level of incomes and standards of life and thus to make room for the development of each other. In India, unfortunately, although even the best among the theoretical freetraders in the West have accepted the validity of a *general* protection in the case of a backward country possessing industrial potentialities, according to the argument of "wealth producing capacity", the special brand of protection of the "discriminating" variety, imposed on our economy, requires each industry *to stand on its own legs right from the beginning and create its own "atmosphere" of success.*

II

Principal Measures

We shall briefly recapitulate here the principal pointers of the recent developments in the industry. It must be remembered that prior to the period of protection, the imports

of sugar were subject to revenue duties which were fairly considerable. On the eve of the Tariff Board Report, the industry was protected by a high revenue duty, the scale of which was as follows:—

TABLE I

Sugar, crystallised or soft 23 Dutch standard and above	Rs. 6 per cwt.
Sugar, crystallised or soft inferior to 23 Dutch standard but not inferior to 8 Dutch standard	Rs. 5-8 per cwt.
Sugar below 8 Dutch standard and sugar-candy ...	25% *ad valorem*, *plus* Rs. 1-8 per cwt.
Molasses	25% *ad valorem*.

These heavy duties were intended for revenue only and brought large revenues to the Government, *e.g.*, in 1929-30, Rs. 870 lakhs as compared to Rs. 53 lakhs in 1900-1 and only Rs. 25 lakhs in 1937-38. The total customs revenue in 1929-30 amounted to Rs. 52 crores, of which the import duty on sugar contributed nearly 17 per cent.[2] This fact is significant for two reasons: In the first place, it explains why the Government of India looks askance at sugar protection as being an important cause of the diminution of its revenue, for with the Government of India, revenue and such other purely administrative considerations are of superior importance, while real indices of national prosperity such as national income, employment or trade are only secondary. In the second place, the earlier revenue tariff provided some protection to a nascent industry and kept it alive. On the eve of protection the industry was fast declining owing to large-scale dumping resorted to by subsidised sugar manufacturers in foreign countries who were faced by the sudden *debâcle* initiated by the depression, and the constant fear of the removal of the temporary revenue surcharge (of 25 per cent) had led to much precariousness. The Sugar Protection Act of 1932 had a tonic effect of great psychological value, as coming in the nick of time.

[2] H. L. Dey, *op.cit.*, p. 240.

The following changes in the sugar tariff were effected between 1932 and 1940:—

TABLE II

Protective and other duties on Sugar etc.

On Sugar per cwt.	Protective import duty per cwt.	Additional duty revenue or excise	Total import duty
From 1st April, 1932 to 31st March, 1934.	Rs. 7-4-0	Revenue surcharge at 25% of protective duty Rs. 1-13-0.	Rs. 9-1-0
From 1st April, 1934 to 27th February, 1937.	Rs. 7-12-0	Revenue duty Rs. 1-5-0 Equivalent excise duty.	Rs. 9-1-0
From 28th February, 1937 to 31st March, 1939.	Rs. 7-4-0	Revenue duty Rs. 2-0-0 Equivalent excise duty.	Rs. 9-4-0
From 1st April, 1939, to 31st March, 1941.	Rs. 6-12-0	ditto.	Rs. 8-12-0

III

Progress of the Industry

Practically every country, which produces sugar today, has either been able to do so by means of rigid adherence to protectionism or some system of preferences in a neighbouring market or in the governing country. The history of beet sugar in Europe and that of cane sugar in the rest of the world have been eloquent testimony of the efficacy of protection as also the value which those countries attach to self-sufficiency in regard to an important agricultural and nutritional product. *There are few instances, however, on record which would parallel the Indian industry in respect of the rapidity and certainty of growth.* The progress made by the industry needs to be clearly and emphatically stated, for it demonstrates not only its own future potentialities but also the immense scope in India for the development of many other manufacturing industries for which the required human and material resources

as well as a market of enormous potential magnitude are available. Right-minded and constructive men, far from ignoring any drawbacks or defects that might have developed in the course of time, must regard this progress with optimism and must cheerfully set about correcting them. Carpers, valetudinarians and such-like, on the other hand, must continue to regard the growth from a myopic point of view and get lost in one-sided details.

TABLE III

Indicators of Development

Year	Cane factories	Total Production of Sugar (tons 000)	Total Imports of Sugar (tons 000)
1931-32	32	470.6	531.5
1932-33	57	643.2	369.5
1933-34	112	718.9	261.3
1934-35	130	771.6	222.9
1935-36	137	1105.0	201.2
1936-37	137	1237.0	23.1
1937-38	136	1072.0	13.7
1938-39	139	766.6	32.7

From Table III, we can see what an enormous growth has taken place. The figures, however, are for sugar only; the production of *gur*, on the other hand, has increased by leaps and bounds during the same period as may be seen in Table IV.

TABLE IV

Total Production of Gur

Net production of *gur* (In thousand tons)

1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38
2,241	2,758	3,240	3,486	3,701	4,101	4,268	3,364

The net effect of the increased production of sugar and of *gur* is that India is today the *leading producer of raw sugar in the world.* In 1938-39, India produced a total raw sugar value of 4,090,000 tons, (figures for *gur* being converted to raw

value along with sugar), while the figures for some of its competitors were: 2,750,000 tons, Cuba: 2,260,000 tons, Russia: 2,114,000 tons, Germany: 2,097,000 tons, U.S.A.: 974,000 tons, Phillippines and Java 1,500,000 tons. This finding has an important aspect which is often ignored in discussions on this problem. In our anxiety to concentrate *on sugar only* as an industrial product, we are apt to forget that *gur* also is an important object of consumption. Leave aside for the moment the question of the burden on the consumer, which indeed every reasonable person will admit as an item on the *debit* side of the fiscal balance-sheet and which will be discussed presently in its proper place. Leave aside the question of mere monetary expenses, and direct your attention for a moment to the *real* wealth thus created. In a poor country, which is habitually full of unemployed, under-employed and, therefore, idle and destitute labourers, the single measure of a protective duty on imported sugar suddenly leads to such an enormous creation of wealth, to such widespread economic activity, that India takes the first place in the world's raw-sugar producers, and records a remarkable increase in her sugar manufacture from a total production of about 1,600,000 tons of raw sugar in 1930-31, to nearly two and half times as much raw sugar in 1938-39. What chances were there that, in a period of depression, without the impetus provided by the protectionist measure, even a fraction of this wealth could be produced? And, what about the consumers of *gur* in India, who are undoubtedly far poorer than those of sugar and who have been getting their *gur* at ridiculously low prices? Those who shed crocodile tears for the famous "consumer" interests (which are really middle-class interests, in this case), may take note of this.

Assuming Rs. 6-0-0 per maund as the average price of raw sugar, the total value of the *additional* production of nearly 2,490,000 tons of *gur* would be Rs. 406,368,000. Let anti-protectionists balance this figure against the so-called burden on the consumer, which, even on the most exaggerated basis, cannot even be one-third of the above figure. It might, however, be said that if it were not for protection, agriculturists would have taken to some other profitable crops; but the critics of protection have not been able to show what

crops precisely have been or could have been more profitable to which the agriculturist had not already turned and in which he could make ends meet. At a time when the agriculturist was at his tether-ends financially, sugar-cane provided a much-needed relief; while in a period of depression, the sugar industry provided a bright patch of success for the business man. The critics of protection are obsessed by the classical assumption of full employment as an initial and permanent condition. They forget to take into account the fact that our human and material resources have been not only suffering from the effects of the depression, but in fact always work at low pressure and that any stimulant would be better than none.

It is of interest to see how the total income bill of the sugar industry, apart from the secondary reactions of activity therein of which we shall speak later on, was divided. The Government of India estimated the total price paid to the cane-growers by the sugar factories in 1935-36 at Rs. 833 lakhs, which helped to maintain on the field about 22.6 lakhs of workers, computing 3 working members of a family per acre, for a total acreage devoted to cane for sugar, actual cane crushed in that year being 98 lakhs of tons and 13 tons being taken as the average per acre. About Rs. 1 crore was disbursed in wages and salaries amongst the industrial workers; about Rs. 2½ crores amongst the Government and the Railways; and about Rs. 1 crore in the purchase of indigenous products like lime, sulphur, bags, manures, etc., by the factories. On the industrial side, the industry employed *directly* 2000 science graduates, 10,000 other educated staff and about 100,000 skilled and unskilled workmen. If we include the acreage devoted to *gur* production as a residual consideration, the total acreage under sugar-cane was about 41.6 lakhs of acres in 1935-36, from which we deduct area for sugar, 7.6 lakhs of acres, thus arriving at 34 lakhs of acres. Assuming 3 workers per acre, this gives a total employment of 102 lakhs of persons. Add to this the employment created in the *gur*-making industry, which must be several times more than that created in the sugar industry, in view of the facts: firstly, that the total quantity of *gur* produced is nearly four times that of sugar; and secondly, that, there are no labour-saving devices here in the indigenous process. We shall

put down 5 lakhs of persons as a modest estimate of the employment in *gur* industry. Thus, total employment *directly* provided by sugar-cane, *gur* and sugar production is as shown in the Table below:—

TABLE V

Total direct employment in the production of Sugar-cane, Gur and Sugar (1935-36)

	Cane	Finished product	Total
Employment for sugar (lakhs) ...	22.7	1.1	23.8
Employment for *gur* (lakhs) ...	102.0	5.0	107.0
Total (lakhs)	124.7	6.1	130.8

From the above Table, it is apparent that, even on a modest basis, the total direct or primary employment created by sugar, sugar-cane and *gur* comes to the figure of 130.8 lakhs. It is not difficult to calculate from this the net result achieved by protection to sugar, by the same method. My calculation is that out of this figure of 130.8 lakhs, at least 25 *lakhs* of persons may have been provided *new* employment by protection. This, however, is the direct or primary employment. It is a well-known proposition of economics, however, that as a result of this direct employment there is also created *indirect* or *secondary* employment, owing to the increased demand for materials required respectively by industries supplying various raw materials and services to the main industry and owing to the new demand for goods (especially necessaries) required by the workers and others directly employed. This indirect employment may be put at the same figure of 25 lakhs of workmen.[3] Thus total employment caused by protection in a year of moderate results (1935-36)

[3] Cf. Keynes, *General Theory*, p. 114; Kahns' article on "The relation of Home Investment to Unemployment" in the *Economic Journal*, 1931, p. 143. Also Professor P. J. Thomas's article on "A Plan for Economic Recovery", *loc.cit.*, Professor Thomas gives the ratio of 4 : 3 between primary and secondary employment, which may be slightly an underestimate, in view of the *insular* nature of the Indian economy.

has been to the tune of about 50 lakhs of workers. Is this not a result worth achieving at the cost of the considerably smaller burden on the comparatively richer element in the population which consumes sugar in India?

IV

Expectations of the Tariff Board

It is too late in the day to inquire now whether the Tariff Board were in 1931 justified, on the basis of the information placed before them, in recommending protection for the period and at the rates that they did. The more important question is whether the expectations of the Tariff Board have been fulfilled or disappointed by the later course of developments in the industry. There is no doubt that, in 1931, the industry was "in a state of distressing adolescence and faced a crushing onslaught any moment"[4] from its foreign competitors. Also, at the time when protection was granted it was received with general relief and unmixed approbation. Recently, however, doubts have been cast particularly by two writers, Dr. H. L. Dey and Mr. B. N. Adarkar, who in their respective books appear to be out-heroding Herod by even denying the ordinary postulates of fiscal theory, such as the "wealth-producing capacity" doctrine, which has been accepted by almost all leading writers on tariffs. Their particular panaceas seem to be rationalisation and research. Now neither of these two panaceas are ruled out by the Indian system of protection and, within the framework of the system erected, it is quite within the power of both the Government and the industrialists to come together and devise ways and means for rationalising the industry as also for utilising the latest fruits of research. For this the Government must take a paternal interest in the industry and require it by law, if necessary, to reform their methods, while it must take active steps for promoting widespread research in all the sides of the sugar business. In fact,

[4] *Mysore Economic Journal*, 1935, p. 176.

as compared to foreign sugar-producing countries, like Java or Cuba, the funds spent on this aspect of the industry, both by the Government as well as the producers, are almost insignificant. Neither the agricultural nor the industrial problems of the industry are insoluble, as recent developments have shown. In a country, where mechanical technique itself has been neglected owing to lack of education, we cannot expect technical efficiency within a few years. The correct atmosphere for industrialisation has been lacking owing to our halting industrial and tariff policies. That atmosphere must be acquired by education of the workers, cane-growers and producers in the modern methods of industrial and agricultural production. That atmosphere can certainly not be acquired by merely nibbling at a few industries at random or by creating a sense of uncertainty by inconsistent fiscal measures. It must be realised by the critics of protection that there are several special handicaps under which the Indian industries work at present: (1) In the first place, the financial policy of the Government has been so far so neglectful in the matter of general and technical education, that the necessary basic factor of technical efficiency is bound to be lacking and can only be acquired after much longer time and travail than in countries like the United States, Germany, Japan, where technical progress is indigenous or in countries like Java, Cuba, Hawaii, etc., where the necessary technical aid has been available from the Dutch and Americans. (2) Secondly, many of the industries presuppose the simultaneous growth of other modern industries for their sustenance, which can help each other cumulatively towards the ideal of technical efficiency. (3) Thirdly, even the currency policy of the Government has been generally adverse to the development of industries and helpful to competing countries, while its depressing influence upon prices and national income has been notoriously unfavourable to development of the internal market. It is impossible, therefore, to expect a comparatively new industry like Sugar to achieve wonders overnight or to expect it to fulfil rigid standards which cannot be fully satisfied even by countries with a more favourable *milieu* of economic forces.

However, let us see how far the industry has been able

to satisfy the expectations of the Tariff Board. The Board put forward the following main arguments in proposing protection:—

I. That the "maintenance and extension of the area under sugar-cane is at all times a matter of definite national importance."[5]

II. That there might be a decline in the area under sugar-cane in the near future due to the threatened overproduction of sugar-cane (owing to larger areas being under the Coimbatore varieties) and due to the consequent slump in the price of *gur* which is the principal outlet for sugar-cane in India.[6]

III. That it was desirable, if a crisis in cultivation was to be avoided, to take steps to ensure that the manufacture of white sugar (which is the other outlet for surplus cane) should be increased to some 400,000 to 500,000 tons, and that, therefore, the protective duty should ensure not merely the continuance of existing factories but the establishment of new factories.[7]

IV. That the conditions laid down by the Fiscal Commission regarding grant of protection were substantially satisfied, *viz.*, that the industry possessed natural advantages of an abundant supply of raw material, an adequate supply of labour, an enormous home market, and cheap fuel in the shape of baggage, etc.; that the industry was not likely to develop without the help of protection; and lastly that the industry would be able to stand on its own legs and in course of time would be able to compete with most unsubsidised countries or with countries which had not an exceptional advantage, as Cuba or Java had.[8]

V

The Main Aspects of Sugar Protection

The Indian sugar industry suffers from three main difficulties: (1) the agricultural difficulty of a very low yield per acre on the average in India as a whole, (2) the industrial difficulty of a low extractive efficiency, and (3) the utilisation of by-products. We shall, therefore, study the problem of

[5] *Report*, 1931, p. 42; cf. also pp. 39 ff.
[6] *Ibid.*, pp. 43—47.
[7] *Ibid.*, p. 49.
[8] *Ibid.*, pp. 27 ff.

sugar protection from these three aspects briefly and then pass on to the other questions.

Let us take the agricultural aspect first, because the Board regarded this as the most important one. It was their view that "it is essential in the national interests that the area under sugar-cane should not diminish and that a fresh outlet should be provided for cane by encouraging the expansion of the white sugar industry." They further added that "Unless steps are taken to develop the white sugar industry, a disastrous slump in the *gur* market is probable which will seriously affect the agricultural classes, disorganise the agricultural system and involve the abandonment of better cane cultivation in large areas."[9] The reasons given by them for regarding the cane crop as important in the agricultural economy of India were as follows: (*i*) firstly, it helps to promote the spread of intensive agriculture and the crop-yields after cane cultivation are higher; (*ii*) secondly, cane is the one agricultural product for which indirect Government assistance is possible through protection of a manufacturing industry; (*iii*) thirdly, the cane crops are important to Provincial Governments which have sunk large sums of money in irrigation; (*iv*) fourthly, cane was the one remaining important cash crop on which the cultivator could rely for his cash requirements; (*v*) fifthly, cane crop is a source of fodder to the cattle; and (*vi*) lastly, it provides continuous employment to both man and cattle as it occupies the interval between the *rabi* and *kharif* harvests, when other employment is scarce. None of these arguments have been rendered nugatory by the passage of time, by the experience of subsequent events or by the random criticisms of the anti-protectionists.[10]

[9] *Report*, 1931, p. 107; see also pp. 39-41.

[10] H. L. Dey denies that sugar-cane does "in any way make for special improvement in the quality of the soil or offer special scope for the provision of irrigation facilities." (*Op.cit.*, p. 258). He asserts that any other crop requiring "heavy manuring and deeper ploughing" would yield the same results. However, he does not mention which crop would be preferable to sugar-cane in this regard. Nobody, certainly not the Board, takes the view that sugar-cane is the only crop, but only that, under the circumstances, it happens to be the best, particularly as it has numerous other advantages. Sir John Russell recently stated that

Practically, every argument advanced by the critics to show that sugar-cane is not *the* crop to be protected is based on a nibbling process and is immediately refuted by reference to the several other reasons given by the Board, which have a cumulative force. For example, Dr. Dey (*op. cit.*, pp. 256 ff.) points out that there are other crops besides sugar-cane which are amenable to intensive agriculture like rice, wheat, maize, etc. But would any such crops simultaneously satisfy the other tests also, *viz.*, of employment during the interval between *rabi* and *kharif*, or providing fodder to cattle, or of being a serviceable cash crop during depression? It is a matter of some satisfaction that even the critics agree that sugar-cane "gives a greater monetary return per acre than any other staple crop in India." In view of this, it is a peculiar conclusion that "there could be no sound reasons why... the cultivation of cane should be bolstered up at the cost of the taxpayer",[11] when we remember that the advantages from the agricultural standpoint are again supplementary to the industrial advantages.

The second important argument adduced by the Board was, as stated above, that there might be a decline in the area under sugar-cane,[12] if a slump in *gur* production was allowed

cane cultivation has a valuable educational effect on agriculture: "He (the agriculturist) learns the advantages of modern varieties of crops, of fertilisers, of proper cultivation; the need to watch for plant diseases and to seek advice when he is in difficulties." Dr. Dey, further, opines that sugar-cane is not important from the irrigational viewpoint, as only 3% of the total irrigated area was under sugar-cane, as compared to 33% under rice. However, it is interesting to note that in 1935-36, the area under sugar-cane had risen to nearly 10%, 5.5 million acres out of a total of 51.3 million acres irrigated being under cane. Dr. Dey's method of helping the distressed farmer is twofold: to give the farmer liberal credit, and to persuade him to restrict production of crops in which there is a slump; but he omits to consider that the former method is widely abused under Co-operation, while the latter is no real solution at all, as restrictionism has proved everywhere. In India particularly, to restrict the cash crop is to starve the villagers.

[11] Dey, *op.cit.*, p. 266.

[12] B. N. Adarkar, *op.cit.*, p. 89, says: "The Tariff Board wanted two things at the same time: an increase in the yield of cane per acre and the maintenance, or even expansion, of the area under cane. Apparently

to develop as a result of *gur* producers failing to utilise the increasing cane output. If the sugar industry expanded, there would undoubtedly be further scope for absorption of cane; this expectation has been fulfilled. However, according to the critics the fear of the Board that a slump in *gur* would bring about a contraction of acreage under cane has not been justified,[13] as, it is pointed out, actually the production of *gur* has increased phenomenally while the price of *gur* has fallen. Does this objection so categorically contradict the Board's views as is made out by the critics? The Board's principal anxiety was not that there would be a slump in *gur* but that there would be a diminution in *cane production* if there is a slump in *gur*. The fact that cane production increased tremendously in a period of unprecedented agricultural depression (when there was almost a stampede for raising profitable cash crops), in response to a new demand created by sugar, proves nothing; for, the agriculturist was none the worse for it,—what he lost on *gur* he made up in the sugar demand for cane. The alternative avenues opened up by sugar at a critical moment and the psychological effects produced thereby have actually led to the expansion of cane cultivation *in a manner which was not foreseen by the Board.* That is all that can be said.

these two objectives are incompatible." Actually, however, what was "incompatible" has become a reality; both yield and acreage have expanded, under the stimulus of protection.

[13] *Ibid.*, pp. 90 ff.

TABLE VI

Net Production of Gur and Sugar-cane

Year	Net Production (est.) Tons (000)	Total (est.) Tons (000)
1928-29	1,787	30,669
1929-30	1,842	30,961
1930-31	2,241	35,780
1931-32	2,758	43,316
1932-33	3,240	51,129
1933-34	3,486	52,455
1934-35	3,701	54,346
1935-36	4,101	61,202
1936-37	4,481	67,322
1937-38	3,997	55,637
1938-39	3,248	43,100

From *Supplement* to the *Indian Trade Journal*, May 30, 1940, p. 16.

But to go a step further and assert that the "glut" in the *gur* market[14] cuts at the root of the argument in favour of protection of sugar, would be illogical. On the other hand, so long as the price obtained for *gur* is higher than the cost of producing it, the very plentifulness of *gur* would be a blessing to the hungry hordes of India, whose diet is already so poor that an addition of *gur* would be a luxury. The Tariff Board in 1931, gave the following figures[15] for the cost of manufacturing *gur* in different Provinces:—

[14] Since the above was written, the glut in the *gur* market first disappeared and has, in recent months, again made its appearance. It is clear the situation at present is very much like the one prevailing at the time to which the critics refer. *Cf.* Section XVI, below.

[15] The figures given in the 1938 Report (p. 50) do not show much reduction in the cost of *gur*-making, except in the U.P. It is apparent that the cost depends primarily upon the price of cane and this has fluctuated very considerably during 1931-40.

TABLE VII

Cost of making Gur per maund

	Bullock Mill							Power Mill						
	Rs.	a.	p.	to	Rs.	a.	p.	Rs.	a.	p.	to	Rs.	a.	p.
Madras ...	1	3	0	,,	1	5	4		...		,,	0	8	0
Bombay ...		...		,,	1	9	0		...		,,	1	7	0
Bengal ...		...		,,	2	3	0		...		,,	1	7	0
Punjab ...	1	14	0	,,	2	7	0	1	3	0	,,	1	10	0
U.P. ...	2	6	11	,,	2	13	10	1	3	1	,,	1	5	1

There is no reason to suppose that the extractive efficiency in *gur* industry has improved much since these figures were collected. On the other hand, owing to the fall in the prices of sugar-cane, if anything, the net cost of production per maund may be expected to have gone down considerably. Moreover the fact that *gur* and sugar constitute a case of joint supply, the farmer (who himself in many cases happens to be the *gur* producer also) would not mind calculating a lower return on sugar-cane after he has sold part of his cane to the factories. Compare these figures for cost of production with those for the price of *gur*.

TABLE VIII

Prices of Gur (per maund)

Year	Ahmednagar			Cawnpore			Bhagalpur			Madras			Lyallpur		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
1920 ...	18	4	7		...		9	4	11	12	15	0	8	0	0
1929 ...	10	5	10	6	10	0	7	10	8	8	11	0	6	3	9
1936 ...	3	8	10	3	9	0	3	0	0	3	14	0	3	11	0
1937 ...	3	0	0		...		2	1	0	3	4	0	3	12	0
1938 ...	7	8	0		...		5	0	0	7	6	2	4	11	3
1939 ...	7	14	0		...		8	2	0	7	1	3	6	12	0
1940 (July)	4	0	0		...		3	10	0	4	7	0	3	14	0

The prices of *gur* everywhere have fallen considerably since 1920; but is the producer any the worse for that? It has been suggested that there could not have been such a sudden jump in the demand for *gur* which would enable *gur* to be fully absorbed in consumption; but this is denying the conclusive evidence of facts. The fact is that the consumption of *gur* has gone up by leaps and bounds. It must be realised that in a poor country like India, the demand for an article of consumption has always the potentialities of enormous expansion because of the enormous population whose food requirements are met on a subsistence basis only; only the *price factor* is important, *i.e.*, only if prices are low enough an expansion of demand like that for *gur* has no element of surprise in it. Thus, there is always scope for even a "sudden jump" in demand in a half-starved population like ours. Actually, there cannot be any *carry-over* of *gur* by the very nature of the case, for *gur* deteriorates within a few months. As we shall see when we discuss the consumer interests in a later section, that in fact the consumption of *gur* per head *has* increased very much. In all this discussion, however, one wonders what has become of the "consumer interests" which seem to dominate every consideration with the anti-protectionists: If the production and consumption of *gur* have increased enormously and at the same time there is no evidence that the producer of *gur* is making any loss as such, is it not a matter for congratulation for the champions of the poor consumer of *gur*? The critics will have to prove that the farmers would have reaped more profit from alternative crops, if they think that sugar-cane has become unprofitable comparatively. The question would then arise, however, why the critics would not leave the farmer to make his own choice of the crops and would not leave the question of selection of crops to the working out of the "inexorable laws of economics" including the laws of supply and demand. The upshot of the whole discussion is that the cane producer found sugar-cane a profitable crop and a useful second line of defence in a period of severe depression, when the price of every other crop had sagged considerably; he sold his sugar-cane at fairly high prices to the mills and turned his surplus into *gur*, thus benefiting himself as well as the poor consumer

of *gur*; the production of sugar-cane in the interval between *rabi* and *kharif* employed him and his cattle in a period of idleness; it also enriched his soil owing to improved methods of intensive farming, thus improving the yields on other crops; and above all, it educated him in the modern technique of agriculture. All these were substantial gains to him. From the consumer's standpoint, the cheapness of *gur* has been a great and welcome event, which, considering the nutritional value of *gur* (which even cancels some of the uneconomic aspects of *gur* production), has been a national gain to the well-being of the poor. Those who concentrate their attention on the manufacture of sugar only to the exclusion of the cottage industry of *gur* production must get a distorted picture of the situation. I, for my part, consider the enormous production of cane and of *gur* as of even greater importance than sugar from the fundamental standpoint of national wealth and well-being and would like to draw attention to the challenging fact that protection has led to all these results of increased wealth, increased consumption of a very useful article of diet by the poor in this country, and incidental self-sufficiency in the matter of sugar production, compared to which the burden on the more well-to-do elements of the population (which constitute the sugar-consuming section) appears almost insignificant.

It is supposed to be a strong point against the Board's findings that sugar-cane plays an insignificant part in Indian agriculture. Thus Mr. B. N. Adarkar says: "If the implication was to assist only the cane-growers, it could not be held to be a substantial contribution towards agricultural relief, because the cane-growers formed only an insignificant proportion of the total agricultural population. On the other hand, if the implication was to help all agriculturists with respect to one crop, *viz.*, sugar-cane, one must say that the Tariff Board attempted the impossible."[16] The reason he gives is that if all cultivators rushed to produce only sugar-cane, a serious overproduction of cane is bound to ensue.

[16] *Op. cit.*, p. 99. H. L. Dey also holds a similar view (cf. his book, pp. 256 ff.).

However, I do not think it is possible for the critics to ride on the horns of this dilemma. In the first place, it must be remembered that cane is a rotation crop mainly, so that it is not possible to isolate cane-growers from the agriculturists as such or to build any conclusions as to the number of agriculturists benefited from the figures of acreage under sugar-cane. In the second place, it is not necessary that all agriculturists should rush into cane production at once and in all parts of India; for soil, and irrigational requirements for sugar-cane cannot be fulfilled everywhere so easily. And in the third place, the overproduction bogey, so far as sugar-cane was concerned, is merely a relative question; if farmers turned from other crops, there would be relief of prices in other crops, and, moreover, owing to utilisation of cane in sugar and *gur* production, this particular occurrence of overproduction could not be harmful in the sense that sugar-cane would be *abandoned* by the farmers. So long as the stimulus of protection is there, sugar-cane would not be abandoned; in the absence of protection, however, the possibilities were and are quite numerous. In any case, the Tariff Board cannot be held responsible if there was a sudden or enormous spurt in cane production; nor if the cane production falls does their case suffer, for more sugar-cane is now required in any case and the problems of the period 1931-38 were those of a temporary disequilibrium. As Dr. Syed Mahmud, Minister of Development, Bihar, said in a recent speech, "Low prices lead to reduction in the area under cane with the result that in the following season there is a shortage of cane; with a higher price the tendency to overproduction again manifests itself and then we have the lowering of cane prices beyond the economic level." This fluctuation of production is now sought to be eliminated by the fixation of the price of factory cane, so as to ensure a steady and regular supply of cane, on the one hand, and an adequate profit to the cane-grower. The so-called overproduction in cane was not a clearly demonstrated fact; in the first instance, both *gur* production and consumption expanded under the stimulus of cheap and abundant sugar-cane and the low *gur* prices, respectively. Thus, there can now be said to be a growing equilibrium between supply and demand; and this adjust-

ment is further illustrated by the recent fall in the area under sugar-cane.

VI

Agricultural Efficiency

Coming to the question of agricultural efficiency, this indeed is the crux of the question so far as the agricultural side of the sugar problem is concerned. The agricultural difficulties are many and serious: the low fertility of the soil; the prevailing system of land tenures; the inferior quality of the cane grown; the scattered nature of the cane crop; the amount and distribution of the rainfall; want of irrigation facilities over large regions devoted to cane cultivation; the general poverty and backwardness of the cultivator and his ignorance of modern methods of farming; and a general lack of cooperation between the cane-growers.[17] In the words of Mr. Noel Deerr (*Capital*, 1932): "Small decentralised areas often remote from the factory; insufficient cultivation and no well-ordered system of artificial manuring; lack of unity and of combination of interest. In addition, there is a waste of three months of sunshine before the coming of the rains for lack of other supplies of water."

There is, however, a message of hope in the recent statement made by Mr. R. C. Srivastava, that "While the yield of great tracts of the main sugar-cane producing provinces was still far from satisfactory, when compared with the yields got, say, in Java, it is a definitely proved fact from the work of the Indian research stations and also from the experience of those factories which grow their own cane that high yields are possible."[18] The following few sample figures quoted by Mr. Srivastava, will be useful in this connection: In Assam in 1932-33, the average outturn per acre of the experimental crop of all varieties was 28.26 tons per acre for plant cane and 26.67 for ratoon. In 1935-36, the new varieties namely,

[17] *Written Evidence*, Sugar Report of Tariff Board, 1931, pp. 178—83, pp. 32, 230, 250-51.
[18] *Supplement to the Indian Trade Journal*, July 21, 1938, p. 15.

Co. 364, Co. 408, Co. 411 and Co. 413 gave an outturn of a little more than 40 tons of plant cane, while Co. 419 gave one of 54 tons. Similarly high results were obtained in different parts of the Deccan-Canal area in 1935-36, ranging from 40 to 60 tons per acre. In a competition organised by the Maharashtra Chamber of Commerce, Bombay, yields of 80 to 100 tons per acre were obtained without any reduction in the sucrose content. In Mysore and the Punjab, similar general progress is recorded. Although with proper manuring, better tillage, better irrigational facilities, etc., it is thus possible to increase the yield per acre, the results so far achieved for India as a whole are still unimpressive. The average yield for India has risen from 12.3 tons per acre to 15.6 tons per acre between 1930-31 and 1936-37; this compares very unfavourably with the Hawaiian and Java yields of 47.3 tons and 52.5 tons per acre (1928 estimates) respectively. In this connection, however, it must be remembered that these countries had an early start and have now the experience of several decades to draw upon, and that (in Java) the system of leasing lands to factories themselves finds favour with the producers, which leads to application of the most modernised methods of cultivation. Where, as in the Belapur Company's factory in the Bombay Presidency, the cane is grown by the factory itself, very high results have been achieved.

Although, however, the yield per acre is an important consideration from the viewpoint of the farmer's prosperity, from the industrial standpoint what matters is the price per unit of the cane produced only. Of course, other things being equal, a high yield per acre will mean low cost of production of the cane, but where, as between the various Provinces in India or between India and, say, Java, values of land, the incidence of taxation, the possibilities of rotational cultivation, the average period of crop-production and such other factors are widely different, to take yield per acre as the only *criterion* of economic value of cane cultivation would be fallacious. Thus, although the yield per acre is higher in Bombay and Madras and in some of the States, owing to several causes, such as higher land values, cost of irrigation, etc., the price of cane is not lower than in U.P. or Bihar. Moreover, it must be remembered that the overhead cost of cane has to be apportioned properly in

the case of rotational systems, where two or three crops may be current in the year. From these points of view, the fact that cheap sugar-cane is available for *gur* production (which is, on the whole, not unprofitable in every case) means that the normal price of sugar-cane *can* be much less than what is charged to the factories. The cost of raw materials, *i.e.*, cane, in Java was estimated by the Tariff Board in 1931 at Rs. 1-8-0 per maund of sugar, *i.e.*, making allowance for a sugar recovery of 11.82 per cent, this works out at about 2 annas per maund of cane. I think, therefore, that in India, *the price charged to the factories is capable of further reduction so as to be in alignment* with that charged to *gur*-producers, *i.e.*, so as to bring it to its proper economic level. Fixation of cane prices at their economic level will also benefit the cane-growers ultimately by providing to them a permanent and certain outlet for their cane, even if protection is withdrawn; from the producers' point of view, it will strengthen their competitive position in the Indian market as also in the foreign markets, if in 1942 the International Agreement is favourably revised. One can easily understand the anxiety of the Provincial Governments concerned to secure for the cane-growers as large a portion of the profit as possible, but it can be easily demonstrated that this is a narrow policy and one which expects continued support from the consumers of sugar.

Turning from the question of yield of cane per acre to that of the introduction of new and better varieties of cane, we find that excellent results have been achieved, thanks mainly to the work of the Imperial Council of Agricultural Research and the Provincial Agricultural Departments.[19]

In 1930-31, out of a total acreage of 2,905,000 acres only 817,000 acres were under improved varieties, (*i.e.*, a percentage of about 20 per cent only); by 1938-39, out of a total area of 3,248,000 acres under cane, the area under improved varieties rose to 2,968,000 acres (*i.e.*, to about 82 per cent). This

[19] Largely the result of the life work of one man, Rao Bahadur T. S. Venkatraman, of the Coimbatore Research Station, whose name should be written in letters of gold in the history of the industry. The only reward obtained by this pioneer from the Government was a C. I. E. !

is a great achievement for Indian agriculture and the credit must go to the Agricultural Council and Departments for it. Yet, the fact that the average yield per acre (for India as a whole) has risen from 12.3 tons per acre in 1930-31 to 15.6 tons in 1936-37 only, requires explanation. If improved varieties were introduced on this scale, how is it that the yield still remains as low as this? I think the answer lies partly in the lower fertility of the soil (than in Java, where the volcanic soil appears to be much more suitable for cane cultivation), partly in the climatic factor (cane being mainly a tropical crop and North India being comparatively unsuitable), and partly in the inferior methods of cultivation. It is not thus sufficient that improved varieties are introduced; reform must go further and attack the methods of cultivation, for it is here that the superiority of Java and Hawaii is most in evidence. As Mr. Deerr says "As nearly everyone connected with the sugar-cane must know, the Hawaiian Islands, the world's most isolated ecological unit, have during the past forty years become famous for the intensity of its cultivation and for the returns unexampled elsewhere, which are there obtained......And while it is true that Nature has been most kind to these favoured islands, it is no more than just to state that the Hawaiian planting interests have utilised to the utmost the available natural resources. The efficiency of their factories and their work in establishing the foundation of the natural method of pest control are well-known."[20] It has taken Java *more than half a century* of research and arduous planning to solve the questions of irrigation, fertilisation and tillage, to raise new and better cane varieties by scientific crossing, to master the chemistry of clarification, sterilisation, and evaporation, and to improve the extraction by mills to its economic maximum.[21] It would indeed be a tall order to ask the Indian cane-growers or research-workers to achieve the same results within half a decade of work.

[20] *International Sugar Journal*, August 1936, p. 293.

[21] Cf. Dr. Prinsen Geerligs' paper on "The Origin of Sugar Experiment Research Stations in Java", in the *Proceedings* of the Fifth Annual Convention of Sugar Technologists, 1937.

Moreover, it must be remembered that, to no small extent, the progress in agriculture achieved in Hawaii, as Taussig points out,[22] was due to the uneconomic stimulation caused by the protection afforded by the United States policy; while, to some extent, the assured and protected market opened up to Java in the Netherlands, by means of protection and mutual arrangements between beet-sugar and cane-sugar producers, was also responsible in stimulating cane cultivation. It would be idle to pretend that progress in either country was absolutely the outcome of natural forces of supply and demand, or of the best natural advantage. What has been possible elsewhere should also be possible in India. It is not just a case of borrowing the cultural methods from Java or any other countries. The problems of the Indian soil, climate and irrigation are peculiar and will have to be tackled largely by independent research.

It is not sufficient that research work has been successful at the Government stations; a more important problem, which at present, owing to the ignorance and orthodoxy of the cultivator, appears to defy solution, is that of delivering it to the actual cane-grower. A large quantity of cane in India at present is rendered useless or deficient in sucrose content owing to the prevalence of pests, especially in U.P., Bihar and the Punjab. In this connection attention may be drawn to the recent survey made by Dr. J. H. Haldane.[23] Dr. Haldane's main conclusions were as follows: (1) that the sugar-cane in U.P. as well as in Bihar was heavily infested with various species of Borers; (2) that this led to excessive loss to cane-growers and manufacturers alike; (3) that the estimated loss due to low sugar content for U.P. and Bihar mills alone would amount to about Rs. 28 lakhs per annum. Borers, Pyrilla white ants and other pests work in the whole of India an annual havoc to a much greater extent than this figure might indicate, because Dr. Haldane considered only the sugar-cane consumed by the factories in U.P. and Bihar, leaving out of account cane utilised in *gur* production. Pest

[22] *Some Aspects of the Tariff Question*, pp. 63 ff.

[23] Published in *Agriculture and Livestock in India*, September 1937.

control[24] is not altogether a very difficult task as has been proved by work done at Jullundur and Muzaffarnagar. What is more urgent is the dissemination of information and active interest in pest eradication. In this connection, it may be permissible to point out that the total amount spent on research as a whole is quite inadequate. The total amount annually provided by the Government of India out of the Excise Fund and otherwise has not exceeded Rs. 12 lakhs on the average per annum. Considering the vast expanse of the country, the variety of soils and of the problems of cultivation, and the importance of cane, *gur* and sugar production to the country (whose value may be estimated in crores of rupees), this provision is quite inadequate. The critics of protection, who are all for research and rationalisation, to the exclusion of everything else, may also usefully note this.[25]

VII

Co-ordination between Cultivation and Manufacture

There is no doubt that it is the agricultural side of the sugar production which is the principal cause of the backwardness of the industry and of its present inability to compete on equal terms with foreign producers. In the first place, the sucrose content of the Java cane is considerably higher than that of the Indian cane, excepting perhaps cane from the Bombay Deccan. Secondly, the Java sugar mills being themselves either the owners or the lessees of the cane-farms, are in a position to avail themselves of the best methods of cultivation and irrigation, and to obtain very high per-acre

[24] Cf. *Supplement to the Indian Trade Journal*, July 21, 1938, pp. 27-28. Also, *Proceedings* of Sugar Technologists' Conference, *sup. cit.*, p. 342.

[25] Sir John Russell in his recent Report to the Government of India stated: "The increase in area under sugarcane is almost certain to be accompanied by an increase in insect and fungus attack and an accumulation of the pests, and the problems concerned are more serious than those of cultivation and manuring, because they are less definite and more spasmodic in their incidence." He further remarks that "the work (at present) is confined too much to the laboratory and the pot culture house; the field and the growing crops should be the centre."

yields. These high yields reduce the distance which has to be traversed by cane before it reaches the factory. Thirdly, in India, a considerable amount of sucrose content is lost due to dryage during transit by cart or train. This together with the cost of transport considerably inflates the final cost to the producer of sugar. Future progress in India must lie along these lines, therefore, in the main. Better quality of cane, higher yields per acre, destruction of cane pests (which cause an annual damage of lakhs of rupees), better methods of cultivation, marketing and transport—these are conditions precedent to progress in the agricultural sphere.[26]

It appears that the manufacturers are averse under present conditions to produce their own cane and are inclined to leave the cultivation side to the agriculturists themselves. The Tariff Board were against compulsory acquisition of lands for the sugar-mills on the grounds (1) that "the alienation of large areas of land to which the cultivating classes are attached by sentimental and family ties, would, we are convinced in modern conditions wreck the prospects of success of any factory so established", and (2) that there were legal difficulties in acquiring lands. I strongly feel, however, that if competitive results are to be obtained and if the Indian Sugar industry is to stand the competition of the leading sugar-producing countries such as Java and Hawaii, the industrial and agricultural aspects of the industry must not remain separated as at present. It is absolutely essential that the manufacturers themselves undertake cane-cultivation on the most modern and most efficient lines; for they have the financial ability, which the Indian cultivator has not, of experimenting with better varieties; of adopting methods of intensive cultivation of a large-scale kind, involving better tillage, better

[26] A sugar technologist lays down the following conditions as essential to success on the agricultural side: (1) To cut cane when really ripe; (2) to deliver cane as quickly as possible after it is cut; (3) to cut off inferior tops and suckers as both are apt to bring down the yield; (4) to free the cane from trash which reduces extraction; (5) to plant the best varieties only, with the biggest tonnage per acre and with the highest sucrose content to achieve the best results; and (6) to exercise the greatest care in cultivation. *Proceedings* of the Sugar Technologists' Conference, *sup. cit.*, p. 238.

manuring and better irrigation; of eradicating destructive cane pests and diseases; and of improving the agricultural efficiency in a thousand and one ways. At present, a considerable amount of wastage is caused owing to the failure of dryage, transport and the general lack of co-ordination between the supply of the raw material and its demand. A lot of man-power, not to speak of bullock-power, is wasted in taking cane over long distances. The low yield of cane per acre necessitates transport over larger distances. The divided functions of supply and demand fail to ensure adequacy and quality of cane required. The more compact the area on which a factory depends for its cane, the greater the economy in working. The timely supply of cane is of great importance for the efficiency of production and any shortage, abundance, or irregularity of supply is reflected in the inefficiency of the mill or in the working period. In Java a sugar factory works on an average for 126 days; in India the period varies from 60 to 115 days but the average cannot be more than 100 days. The shorter the working season, the heavier the overhead charges and the greater the difficulty of securing economic and efficient operation.[27] The combination of the zone system with the minimum price fixation, forms, no doubt, an improvement on the present system to some extent. But as Mr. Srivastava pointed out to the Tariff Board in 1931, the zoning system cannot assure better cultivation. In spite of virtual monopoly, many factories have done nothing to help cane cultivation. The higher price obtainable by Government fixation makes the cultivator indifferent to improvement, while the monopolist buyer, *viz.*, the factory, refuses to take interest in cane cultivation, seeing that whatever is done, the price would remain the same. Even the zone systems, therefore, does not ensure efficiency of production, because only one or two defects are removed and the fixation of prices makes the whole procedure uneconomical, from the point of view of the industry.

The Tariff Board stated that the most important ad-

[27] Cf. Prof. R. D. Tiwari, "Factory Sugar and Its Problems" in the *Indian Journal of Economics*, October 1936, p. 187.

vantage of protection was the secure market provided to the agriculturist by the establishment of a sugar industry. Whatever might have been the original intentions of sugar protection, there is no doubt that a stage has now been reached when *this view of Protection as primarily benefiting agriculture has to be revised.* The fixation of prices of cane at high levels has indeed benefited the agriculturist, in a period of depression, when other commercial crops yielded little or no profit. The security of market for a part of a cane supply has also led to the improvement of agriculture. However, from the point of view of the competitive position of the sugar industry, this supremacy of the agricultural interest has been very harmful. If the primary object is still to benefit agriculture at the expense of the industry and of the Indian consumer, nothing can be said; *but if the sugar industry is at the same time expected to rise to the same degree of efficiency as in Java or Hawaii, and further, if the grant of protection itself is to be made dependent upon such a development*, then it must be said that that is an impossible proposition. I shall presently discuss, in Section XVI, the futility of price fixation for cane; here the relevant point is that the sugar industry must now be enabled to stand on its own legs, and produce its own sugarcane at the cheapest costs possible. That it is not impossible for the Indian factories to manage the agricultural side as efficiently as in Java, is amply demonstrated by the example of the Belapur and some other factories in Western and South India. In my view, that process must now be extended to the other and more important cane-producing Provinces, *viz.*, U.P. and Bihar. I realize that the tenancy laws of these provinces are not very helpful; but from what study I have been able to make of the situation I do not think that the difficulties are insuperable, especially where the *zemindari* system prevails. The Governments should enact appropriate legislation to enable factories to acquire land on lease or by purchase from the *zemindar*, or from the cultivators on a co-operative basis, in which a certain element of Government intervention might be necessary. The objection, that such a procedure might alienate the cultivators, who might work against the interests of the factories, will not arise if the cultivators are amply compensated, on the principle that the cultivator gets his annual net

income as assessed by Government from each plot thus leased.

This means that a radical transformation of policy, by which the interests of the sugar industry would be regarded as more peremptory than those of agriculture, will have to be brought about. As a matter of fact, the enormous expansion of the consumption of *gur* which has taken place in recent years assures a sufficiency of demand for sugarcane. From the *national* point of view, it would be no use to bolster up the production of cane at the expense of both the consumer as well as the sugar manufacturer permanently. Sooner or later the production of cane must find its own equilibrium in relation to the *gur* market, and in view of the changing structures of agricultural prices, especially of other commercial crops such as wheat, cotton, jute, oil seeds etc., it would be in the interest of agriculture itself to enable sugar-cane to find its own equilibrium. It would be a wrong view to regard the Indian cultivator as a stagnant agent of a particular type of production; in so far as he assists the production of sugar directly or indirectly as either a lessor of land or as a workman on the sugar farms, he will benefit both himself and the nation. In a progressive community which is aiming at industrialisation, such a transformation is both desirable as well as inevitable. It may, however, be pointed out that the manufacturer himself may be unwilling to undertake cultivation. This difficulty, however, is not serious because the State itself can require the factories to grow their own cane, by making it a condition of licensing. Once the factories take to cane cultivation, in course of time, they are bound to acquire a high degree of efficiency in cane cultivation.

VIII

Industrial Efficiency

Coming to the industrial side, we shall now examine the various causes of the comparative backwardness and the low extractive efficiency of sugar-manufacturing in India, as compared to Java, Hawaii and other countries. It must be remembered, in this connection, that Java and other countries

have had the advantage of decades of experience both in manufacturing and cane production, while the fruits of research, on which Governments and industrialists in those countries have spent vast funds, have been at their disposal all these years. I have already stated that the main cause of the low extractive efficiency of Indian factories is the inferior quality of Indian cane. However, it must be remembered that the percentage of recovery is a continually rising one. Between 1920 and 1925 the extraction of percentage rose from 6.85 to 8.07. From 1925 to 1929 the all-India average rose from 8.07 to 8.60. The recent figures are given below, for India, the Provinces and Java for comparison.

TABLE IX

Average and Maximum Percentage of Recovery of Sugar in Factories in India, and Java, since 1931-32

Year	India Average	U. P. Average	Bihar Average	Bombay Average	Java Average	India Maximum
1931-32 ...	8.89	8.59	9.06	...	10.46	10
1932-33 ...	8.66	8.55	8.60	10.00	11.15	10
1933-34 ...	8.80	9.08	8.32	10.00	12.64	10
1934-35 ...	8.66	8.56	8.79	10.37	12.35	11.10
1935-36 ...	9.29	9.60	8.93	10.47	13.21	11.34
1936-37 ...	9.50	9.65	9.20	10.68	11.72	11.43
1937-38 ...	9.38	9.18	9.58	10.97	11.40	11.63
1938-39 ...	9.29	9.14	9.00	...	11.61	12.25

It will be seen from the above figures that the percentage of recovery has been continuously on the up-grade both for India as a whole and for the Provinces.[28] It is remarkable that in Bombay the percentage has rapidly come up to the Java percentage, while the maximum Indian percentage has

[28] The low recoveries, especially in U.P. and Bihar in 1938-39 were due to diseases and floods. (Cf. *Supplement* to *Indian Trade Journal*, May 30, 1940, p. 18). However, the recovery in provinces other than U. P. and Bihar rose by .14 per cent during the year.

come up to the latest figure for the Java average. From this, two things become distinctly clear; (1) Firstly, that the percentage is highest where best quality cane is available and (2) secondly, that it is quite within the range of practicability to increase the percentage still further. If direct cultivation is undertaken by the manufacturers, there will be a definite increase in the percentage, because of the elimination of dryage, adoption of improved varieties of cane, better cultivation and other factors, already noted above. It must be borne in mind also that so long as the technical maximum has not been reached, as in the case of India, there is always the potentiality of improving the extractive efficiency. That is to say, where, as in Java (*cf.* above Table), the technical maximum is already reached, further scope for improvement is very small, and as a matter of fact, even declining results may sometimes follow. But, where, as in India, both on the agricultural side as well as on the marketing side, further improvements are *possible*, the scope for increase of the extractive percentage is much higher. It is for this reason, that I feel that the sugar industry has every chance of success in the future, in maintaining its competitive hold on the Indian sugar market even after the withdrawal of protection.

In the initial stages, an industry is bound to commit mistakes, as the manufacturers, unaccustomed to their task, must grope on their way to efficiency. It is in this light that we must view the several failings which have been attributed to the Indian sugar industry. Critics have made much of the fact that many of the factories "have been equipped with cheap, inefficient and out-of-date plant." Mr. B. N. Adarkar quotes from an article by Mr. E. G. Wuthrich, who says: "Many factories (in India) are still following processes and methods which cannot but be called old-fashioned. Some are producing various kinds of sugar where it would be better to manufacture only one of good quality. Others while manufacturing only one class of sugar are following the wrong method because they are not properly equipped. The low figure of 8.99 sugar recovery per 100 of cane is not due entirely to bad quality canes, but also to the heavy losses many factories suffer through inefficient methods."

This view of Mr. Wuthrich, however, is not quite true

about the recent developments in the industry. In view of the fact, which was pointed out[29] by the Tariff Board in 1931, that "the sucrose content of the Java cane is much higher than in India, varying between 13 and 14 per cent as compared with an average sucrose content of 11.5 per cent in Northern India", it follows that the higher extractive efficiency of Java factories is *far more due to the quality of cane than to manufacturing efficiency.* It must also be remembered that the Indian industry has far exceeded even the expectations of the 1931 Tariff Board, who stated that at the end of the *entire* protective period (of 15 years) should obtain a recovery of 9.4 per cent, "a figure not far short of Java practice allowing for the difference in the sucrose content of cane."[30] As regards the criticism about inferior machinery and processes, that applied mainly to the earliest factories and to earlier installation of plants, the recent establishments, however, possess the most modern and efficient plant and, as a result, the processes of production as well as the quality of sugar produced have been improving very rapidly.

A more serious criticism of the technical aspects is that the sugar industry has been run by a comparatively inefficient personnel. The President of the Sugar Technologists' Association, Mr. Padmanaba Iyer, remarked, in his address in 1936, that the industry suffered owing to "the lack of honest, capable technicians, interested in the progress of the industry", and pointed out that the industry had given rise "to a number of bogus experts, technologists, chemists, engineers, managers, managing directors, private secretaries and personal assistants of all types and species, Indian and foreign." "Some of them", he said, "may not have even passed the High School Examination or Matriculation Examination not to talk of their claims of bogus degrees. The performances of such men before the sugar boom of 1932-33 may be found to be rather discreditable, to say the least. Many factories, proprietors and managements have now come to know the merits of these gentlemen......The time has come

[29] *Report*, 1931, pp. 64-65.
[30] *Report*, 1931, p. 68.

now to take action to protect the members of the Association and the sugar factory proprietors publicly." It must be realised that sugar production is a highly technical process and that, in western countries as well as in Java, the best men only are chosen by the mills. As Mr. Noel Deerr once pointed out, "It is the last grain of sugar, which pays the dividend." The Indian industry must, therefore, set its house in order, by selecting the most efficient men, who will give the benefit of their knowledge and experience in the adoption of the latest technical methods and who will endeavour to reduce the cost of production to the minimum possible and secure this "last grain". The factories must weed out all favouritism and nepotism and strive to organize their production on the basis of efficiency alone.

IX

Optimum size of the Factory

The next important question in regard to efficiency is the size of the average sugar factory. It is notorious that the size of the Indian factory is much smaller than that in foreign countries. According to a well-known authority[31] writing in 1927, the average annual output of a sugar factory in different countries was as follows:—

TABLE X

	Tons
Cuba	26,000
Hawaii	18,000
Philippines	17,000
Porto Rico	15,000
Australia	10,000
Java	12,500
South Africa	9,500
Mauritius	5,500
India	4,500 (Tariff Board estimate)

[31] Francis Maxwell, *Economic Aspects of Cane-sugar Production*, p. 104.

The economic unit of a factory is actually determined by (*a*) the supply of cane available at sufficiently low prices, in which again the factors of distance, the quality of cane, and the yield per acre are involved; (*b*) the size of the market and its demand requirements for sugar; and (*c*) to some extent the initial size of the plant, whose extension into a bigger plant is feasible only at some extra cost, which sets the technical limit to extension at each stage. It would appear from the table below that the average net production of sugar per factory, *i.e.*, the economic unit, has increased in recent years.

TABLE XI

Growth of Sugar Industry in India since 1931-32

Season	Factories Working	Quantity of Cane crushed	Quantity of Sugar produced (Cane Factory Production only)	Average output per factory
	Number	Tons	Tons	Tons
1931-32 ...	32	1,783,000	158,581	4,955
1932-33 ...	57	3,350,000	290,177	5,091
1933-34 ...	112	5,157,000	453,965	4,053
1934-35 ...	130	6,672,000	578,115	4,554
1935-36 ...	137	9,801,000	932,100	6,802
1936-37 ...	137	11,687,000	1,111,400	8,109
1937-38 ...	136	9,916,400	930,700	6,814
1938-39 ...	140	10,250,000	950,000	6,786

The above table shows that the average output has risen considerably since the first Tariff Board reported. It has risen from about 4,950 to between 7,000 to 8,000 tons during the past eight years. It must be remembered, however, that the size of the factory as shown by these figures is related to *actual* production and not to the *potential crushing capacity*, which is a more accurate indication of the size. The cane-crushing capacity in India, moreover, is sufficiently high if considered on a *daily* basis; but the season for crushing being much shorter in India, the annual crushing capacity may look small. But even that corresponds to about 10,000

tons of sugar per season per factory, on the average. By the introduction of better quality of early and late ripening cane, it should be possible to increase the capacity much further. But the sucrose content of early and late varieties is at present not remunerative and this obviously is a matter for agricultural reform. There is no doubt that the overhead charges depend largely upon the output, or, in other words, the larger the output of sugar, the smaller the overhead charges per unit. From this angle, the size of the factory becomes a matter of considerable importance. Moreover, other economies of large-scale production such as bulk-buying and bulk-selling, the provision of research facilities, the utilisation of the by-products, etc., also, to a large extent, depend upon the size of the factory.

X

Utilisation of By-Products

In regard to the utilisation of by-products, the Indian sugar industry is severely handicapped. This indeed is the most serious problem facing the industry. Molasses and bagasse are the two chief by-products of the industry. The Tariff Board calculated in 1931 that the price of molasses would be Rs. 1-8-0 per maund, but at the present time molasses is sometimes not only not able to fetch any price but even its disposal has become a source of great difficulty and some extra expenditure to the industry. In foreign countries, as we shall see later on, molasses is protected from going to waste by various laws of power alcohol. Molasses has also several other uses, such as manuring, cattle-feeding, road-making, reclamation of *usar* land, etc. The production of molasses in India for the last seven years is shown in the next table, from which it will be seen that the import of molasses has now completely stopped, while a small export is now possible to foreign countries since 1936-37.

TABLE XII

Total Production, Import, and Export of Molasses

(In thousand Tons)

Year	Production: From Cane Factory	From Gur Refineries	From Khandsari	Total	Import	Export including Palmyra and Jaggery
1931-32 ...	69	46	250	365	40.1	.7
1932-33 ...	130	56	275	461	31.9	.8
1933-34 ...	190	40	209	430	2.4	1.2
1934-35 ...	234	22	150	406	0.4	1.1
1935-36 ...	337	33	125	495	nil	1.0
1936-37 ...	406	10	100	516	nil	24.2
1937-38 ...	349	8	125	482	nil	79.2
1938-39 ...	242	7	100	349	2.2	52.7

(*Sugar Industry Annual*, 1938, p. 112).

Power alcohol is produced on a commercial scale in the sugar-producing countries and there seems to be no particular obstacle in the way of the conversion of molasses into power alcohol in those countries. Alcohol, as motor fuel, has practically all the essential qualities of petrol. In fact according to the United States Bureau of Mines "denatured alcohol more nearly approaches the ideal fuel than does gasoline, for at any one compression it shows greater efficiency."[32] Alcohol has a number of advantages over petrol: its thermal efficiency is greater; it is safer in storage, in transportation, and in use; it does not carbonise and therefore does not cause the engine to "knock"; it is cleaner in every way and lacks the unpleasant exhaust of petrol; and it also economises in the use of lubricants. Power alcohol, therefore, is widely used as a motor spirit, after being mixed with petrol. In most sugar-producing countries, there is compulsory legislation requiring petrol dealers to mix power

[32] Bulletin 43, p. 236 quoted by Jhon Ise, *United States Oil Policy*, p. 437.

alcohol with petrol as a percentage varying from 10 to 50 per cent.

It is quite obvious that the oil interests which are predominantly represented by the Burma Oil Company and Anglo-Persian Company will be affected by any decision in this regard. But, the problem has to be viewed not only from the standpoint of the conservation of oil resources, but from that of securing to the country an important source of wealth which is going to waste at present. According to an Australian[33] estimate, one ton of sugar molasses can produce 65 Imperial gallons of power alcohol (95 per cent). Thus it will appear that out of the three or four lakhs of tons, which are annually going to waste at present, it would be possible to produce between 19 to 25 million gallons of power alcohol. The annual import of petrol into India is of the order of 102 million gallons, as will appear from the table below:

TABLE XIII

Consumption of Petrol in India

(Gallons)

Year	Total	From Burma and India	From other countries
1930-31 ...	79,400,000	...	...
1931-32 ...	75,500,000	...	...
1932-33 ...	73,151,000	...	...
1933-34 ...	74,218,000	...	...
1934-35 ...	82,541,825	81,058,651	1,483,274
1935-36 ...	93,776,995	91,699,220	2,077,775
1936-37 ...	100,836,316	91,088,830	9,747,486
1937-38 ...	102,255,617	63,395,010	38,660,607

In 1937-38, the total value of petrol imported from Burma was Rs. 3,43 lakhs while the value of petrol imported from other countries was Rs. 1,88 lakhs, thus amounting to a total of Rs. 5,31 lakhs. This is an enormous drain on the

[33] Institute of Science and Industry, *Bulletin* 20.

wealth of India. With the growing volume of motor transport in India, there is no doubt that at the present rate still greater imports of petrol will be necessary. In view of the separation of Burma from India, in 1937, it is highly desirable for India to develop an alternative source of motor fuel inside the country, especially to avoid difficulties caused by sea blockade in bringing petrol from Burma or from other countries (from where imports have been steadily increasing) the need of conserving our newly found mineral oil resources in Assam and the Punjab also points in the same direction. According to estimates made by various authorities the cost of producing power alcohol would be between 4½ and 6 annas per gallon.[34] If 10 annas is added as the excise duty on power alcohol, it may still be possible for the distilleries to deliver alcohol in the interior of the country for about Re. 1, which is less than the market price of petrol in any province. The total value of power alcohol secured for the country will thus amount to about Rs. 75 lakhs to Rs. 95 lakhs, while the Government revenue will be none the worse for it, because the Government will still get annas 10 on each gallon of alcohol substituted for petrol. If anything, the demand for petrol-alcohol mixture might go up to some extent, owing to the incidental reduction in price as also the superior efficiency of the mixture. This will bring in more revenue to the Government than now. Thus, looked at from whatever angle, except from that of the vested interests of oil mines, this huge national waste of nearly Rs. 1 crore appears almost criminal.

Molasses can be utilised in other ways also, *viz.*, (1) Cattle

[34] Estimate of Jean Caupin, a French chemist, with a plant for 300,000 gallons per annum, 4½ annas per gallon. According to Dr. N. G. Chatterji of the Harcourt Butler Institute, cost would be 4.7 annas, with existing distillery; 5.5 annas with distillery attached to the sugar factory; and 6.2 annas in an independent distillery (new). These estimates are based upon the present price of molasses; with greater demand for distillation the cost should rise somewhat. But obviously it cannot rise above the declared value of petrol (7 to 8 annas per gallon). Cf. similar estimates of the Sugar Technologist of the Imperial Institute of Sugar Technology, quoted by the Tariff Board (1938) in their Report, pp. 109-10.

food, (2) Fertilizer, (3) Reclamation of alkaline soils, (4) Road surfacing, and (5) Export to other countries. Various efforts are being made both by the Provincial Governments and by private scientists in experimenting with some of these uses. But, although molasses can be demonstrably utilised in most of these ways, whether it is an economic proposition to do so is quite another matter. It appears, however, that the conversion of molasses into power alcohol is, both from the economic and strategic viewpoints, the best method of disposing of this by-product. *In any case, it seems certain that in the future if the cost of production is to be reduced, the utilisation of molasses will have to be actively encouraged, because in other sugar-producing countries such utilisation has led to the realisation of incidental economies.* It can be safely predicted that if the entire molasses now going to waste is converted into alcohol, the industry will be able to effect a net saving of about six to eight annas per maund of sugar, because 4 lakhs of tons of molasses, which correspond to about 11 lakhs of tons of sugar, will bring in a net value of about Rs. 1 crore which is about 1/16th of the present total cost of producing sugar at Rs. 8 per maund or thereabouts.

The Governments of U.P. and Behar recently appointed an expert Committee to devise ways and means for starting the manufacturing of power alcohol and to report on the best method of mixing power alcohol with petrol and on other possible methods of utilisation of molasses. This joint Committee submitted its report in 1938. The Committee's findings were mainly as follows: (1) The production of alcohol from molasses in India was a feasible proposition. Particularly the conditions were very favourable in the two provinces of U.P. and Bihar owing to the localisation of the sugar industry in these provinces and the large surplus of molasses available. (2) The industry will require no subsidy from the Government, but active encouragement was necessary by means of legislation. (3) Power alcohol can be manufactured at such cost that an excise duty equal to that of petrol can be borne by it. The price at which it can be delivered at the petrol mixing depots may not be higher than Rs. 1-4-0 per gallon after paying annas six per maund for molasses, anna 1 for denaturants and annas 10 as excise duty. Accord-

ingly, the committee recommended that the industry should be established in the two provinces under the control of the Governments, that petrol should be compulsorily mixed with power alcohol (in the proportion of 50 : 50) before being sold retail. Recently, a Provincial Act was passed by the U. P. Government embodying the recommendations of the Committee. The U. P. Act provides that the Government may by notification prohibit the sale of petrol except with an admixture in the prescribed manner of power alcohol supplied by the Provincial Government, secondly, that no person should use petrol for any motor vehicle without mixing it with power alcohol; thirdly, that alcohol must be produced from molasses and from no other material; fourthly, that the Provincial Government will have the compulsory power of purchasing alcohol from any private producer. It appears that the production of power alcohol is to be left to private initiative largely. With this end in view the Governments concerned approached the Sugar Syndicate with a proposal that the sugar producers should manufacture power alcohol and sell it to the Government. However, the conditions imposed by the Governments were not acceptable to the Syndicate. Although the sugar manufacturers were unwilling, there are a number of private distilleries at Meerut and other places, which can produce power alcohol from molasses. Although initially it may not be possible to satisfy the whole demand for U. P., latterly, it is hoped, sufficient alcohol will be produced to enable dealers to mix it with petrol in the prescribed proportion.[35]

As regards the utilisation of bagasse, it does not seem likely that bagasse can be profitably utilised in making packing paper and paper-boards. According to the Sugar Technologist of the Imperial Council, the cost of one ton of bagasse at the factory will be between Rs. 12 and 14. To this cost of bagasse, the cost of transporting it from the sugar factory to the paper or paper-board factory has to be added. This cost may be anything from Rs. 14 to Rs. 18. Mr. R. C. Srivastava,

[35] Under the Act, the proportion may be anywhere between 5 and 30 per cent, as may be notified by the Provincial Government.

Director of the Imperial Institute of Sugar Technology, observed, in a note on the utilisation of bagasse submitted to the Sugar Committee in March 1938, that bagasse was being used as fuel in factories and that if bagasse was to be made available for other purposes, some cheap and readily available fuel would have to be found as a substitute for it. The calorific value of bagasse is about two-thirds of that of coal and, therefore, the value of bagasse as fuel is more than equal to that of coal, seeing that coal has to be obtained from considerable distances. A paper factory, relying upon bagasse, will have chances of success, only in a locality where the cost of transporting coal is small or negligible. Thus, the only place, where packing paper or paper-board can be produced from bagasse, appears to be the southern part of Bihar. But it must be noted that transport of bagasse also being costly, such a factory can rely only upon the local supply of bagasse.

XI

Loss of Government Revenue

An important argument against sugar protection is supposed to be its adverse effect on the revenue of the Government. Mr. B. N. Adarkar, *e.g.*, says: "As imports fall, more and more of the revenue resulting from the revenue duty is transferred from the State to the local producers. But the State cannot retrench its essential services......The State has, therefore, to impose fresh taxation, the major portion of which falls on persons other than the protected ones. The consumer, accordingly, not only pays the duty to the protected producer, but has also to pay new taxation to the Government, which means that the demand for products other than the protected ones will suffer and employment in other industries will fall off. This must be so, because while the national income is constant, the consumer is paying the same amount to the State as before and a higher amount to the sugar producer." This critic's argument is somewhat more scientific than the usual one, which states that owing to Protection there is a loss of revenue to the Government and, therefore, also a loss to the country. This latter argument

is quite fallacious, because a loss of Government revenue, which is merely an administrative consideration cannot by any stretch of imagination be considered a *real* loss to the country; at best it might suggest only a re-arrangement of the financial machinery of taxation. Turning to the objections of the above-mentioned critic, in the first place, the assumption made by him that the national income remains constant is not correct in the case of a country which has a large margin of unemployed human and natural resources and which is a backward agricultural country, possessing potentialities of large-scale industrialisation. This means that Protection *must cause a net increase in employment*, which suggests that there cannot be any national loss but only a national gain due to the development of a new industry by Protection. Secondly, we must also take into consideration, the new incomes earned by the newly employed labour as also the profits of the employers, which both will be either spent or invested so as to nullify the effects of any shrinkage of employment in other industries caused by taxation of the consumers. It is wrong to say, moreover, that the consumer has to pay two additional burdens; as the consumer was already paying the tax to Government prior to Protection, which he now has to pay to the sugar producers (if at all), the only additional burden will be that of the imaginary new taxation.

But, apart from these theoretical and imaginary considerations, what is the actual position as regards the changes in Governmental revenue caused by the net effects of Protection? From the following table it will be seen that, taking into consideration the present revenues from the import duty and excise duty on sugar, the income from railway freights on sugar, the import duty on sugar machinery imported into India, the additional income of irrigation departments, the increased revenue from income-tax collected from the sugar producers and the employees, the so-called "loss" of Governmental revenue has been amply made up.

TABLE XIV

The Effect of Sugar Protection on Government Revenues

(In Rupees Lakhs)

Year	Import duty on Sugar	Excise duty	Railway Freights on Sugar and Cane (*a*)	Income-tax (*b*)	Import duty on machinery (*c*)	Total
1931-32 ...	6,19	...	?	25	?	6,44
1932-33 ...	6,84	...	?	25	15	7,24
1933-34 ...	4,72	...	1,85	25	33	7,16
1934-35 ...	3,81	97	2,00	30	10	7,33
1935-36 ...	3,24	1,58	1,89	30	6	7,22
1936-37 ...	43 (*d*)	2,52	1,88	50	9	5,42
1937-38 ...	25	3,31	2,60	50	6	6,72
1938-39 ...	20	3,60	2,60 (*e*)	50	6 (*f*)	6,96

(*a*) The Railway freights on Sugar are available for all the Railways; for cane, only E.I.R. and B.N.W.R. figures are available, and therefore, for other Railways, I have added Rs. 10 lakhs only, which is a very moderate estimate.

(*b*) Figures for Income-tax are not available. But seeing that the total Income for all income earners is in the neighbourhood of Rs. 16 crores and the indirect effects of this upon other incomes in other industries must be additional, even if we exclude the non-taxable income, the estimates entered in the above Table will not be far from correct as a final position.

(*c*) The duty on machinery has been assessed at a flat rate of 10%.

(*d*) From this year onwards the figures exclude Burma.

(*e*) Previous year's figure assumed.

(*f*) Ditto.

From the above figures it will appear that the Government has not suffered, on the whole, a net loss of revenue during the protection period and the cry that the consumer has suffered owing to taxation in other directions is not supported by the facts.

XII

Burden on the Consumer

Let us now examine the question of the so-called "burden on the consumer." The first and most salient fact that strikes any one examining the incidence of sugar protection, is that the burden of the protective duty, if any, could not have fallen upon the poorer sections of the community, who live in the villages and who consume *gur* rather than sugar. The Tariff Board in its *Report*, Chapter VII, fully discussed this question and came to the conclusion that "the agricultural classes incur very little, if any, additional expenditure as a result of the Protective duty on Sugar; on the other hand, the gain which will accrue to agriculture from the extension of white sugar factories, the exclusion of foreign sugar and the prevention of the manufacture of imitation or adulterated *gur* should far outweigh any disadvantage resulting from an increase in the price of imported sugar above the prevailing low levels" (pp. 92-3). The Tariff Board also refuted the view of the Indian Taxation Committee that the revenue duty on sugar shifted the burden of taxation from the richer to the poorer classes. "We have found", they say "that the price of white sugar is not the determining factor in the price of *gur* and throughout large portions of India, the price of *gur* is practically independent of that of imported sugar and is regulated in the main by the character of the season and the output of cane. It appears, therefore, probable that the burden of the sugar tax falls to a greater extent on the well-to-do classes than the Taxation Committee supposed." This conclusion of the Tariff Board arrived at in 1931, still stands unimpugned. As will appear from an earlier section dealing with *gur* in this Chapter, the prices of *gur* have fallen to such an extent everywhere, owing to the increased production of cane and *gur*, that the consumer of *gur*, far from being burdened by Protection has actually benefited enormously.[36] Even an academical critic like Dr. H. L. Dey concedes that "from the revenue point of view, a duty on sugar would clearly be

[36] During 1937-9, the rise in *gur* prices was due to bad cane harvests.

less regressive in effect and hence less objectionable in principle than a duty on a common necessary of life like cotton piece-goods."[37]

The burden on the consumer can be measured in three ways: (1) firstly, we can compare the present prices with the prices which ruled before Protection was granted; (2) secondly, we may compare the price of the indigenous commodity with the ex-duty price of the same commodity imported from abroad *plus* the revenue duty only; and (3) thirdly, we may compare the price of the indigenous commodity with the ex-duty price of the imported commodity only. The Tariff Board estimated that in 1931, at the end of the protection period of fifteen years, the cost of production of Indian sugar "should not exceed that of any other country except Cuba and Java", where there were exceptional advantages (p. 37). The Board rested their case on two grounds: (1) first, that it was reasonable to expect that India could manufacture sugar at a cost not higher than that at which two-thirds of the world's supply was then produced, and (2) second, that if State assistance by means of subsidies and tariffs were withdrawn from those countries where sugar production was a hot-house growth, the consequent reduction in the total supply of sugar available would raise world prices in spite of the low costs in Java and Cuba to a level at which it would be possible for India to compete unaided. This view of the Tariff Board has been criticised as illogical. But I do not think that the Board either mis-stated the facts or mis-applied the theory.

When practically the whole world is producing sugar behind tariff walls for various reasons of strategic "autarky" or self-sufficiency, it may not be a small gain that the Indian industry should be able to compete unaided with every country except one or two. Mr. Robertson describes the exact process of sugar production and sale in European countries thus: "The recovery and maintenance of European sugar production has been made possible not only by the strong position held by sugar beet in crop rotations and the

[37] *Op. cit.*, pp. 239-40, footnote.

resistance of the present growers to unfavourable economic conditions, but by the *determination shown by almost all European Governments to maintain their sugar beet area by ever higher protective tariffs in the face of intense competition.* (Italics ours.) By organisation in cartels having strict control over the whole industry, the various national sugar industries are able to take full advantage of the protection afforded by high tariffs and to *maintain internal prices so as to subsidise the export of surplus production, which is maintained largely with a view to securing the benefits of large-scale operations.*"[38]

The theory of international trade, with its checks and balances, was not meant to be applied to a situation in which trade was so artificially and drastically controlled. If the principle of comparative cost is allowed its full scope in the matter, two-thirds of the sugar production of the world, if not more, will have to be scrapped, even if we leave alone those countries which have now been able to compete in a natural and free market. This means that production of sugar will be concentrated in Java and perhaps Cuba and Hawaii. If the entire world demand for sugar is thus concentrated, how long will the low wages and low rents of land, available in Java and Cuba, continue? Thus, to my mind, there is no doubt that the Tariff Board were right in saying that world prices of sugar would rise; but they might also have added that the costs of production in Java, which have reached their technical limit of efficiency and which are really a reflex of low rents and wages no less than of technical efficiency would also rise in sympathy. For this reason, it would be an illegitimate and dangerous procedure to compare present prices of Indian sugar on its cost of production with the present ex-duty price of Java sugar. Moreover, it must be remembered that only after a complete and fair trial is given to protection, say, for fifteen or twenty years, is it possible to make any comparison between Indian and foreign costs, because in the first few years, while the industry is groping its way towards equilibrium, it would be unfair to expect full efficiency. You cannot expect miracles in a few

[38] *World Sugar Production and Consumption*, p. 90.

years. Even the Javanese industry has been established after a long process of trial and travail extending over five or six decades.[39]

There are a number of reasons why sugar prices in India are pitched up to a high level (I do not refer here to the recent fall in the price of sugar, which will be considered separately later)—(1) Firstly, the high cost of sugar-cane, which as the preceding pages show is not wholly irremediable, is responsible for a considerable proportion of the total cost. (2) Secondly, the excise duty, which was prematurely levied upon a growing industry in contradiction of the Government's policy of protection also inflates the ultimate prices. (3) Thirdly, the high freights, charged by the Indian railways, are also responsible for the high prices. The expected irreducible minimum for cane prices in U.P. and Bihar is 0-6-3 per maund for gate-cane and 0-5-9 per maund for rail cane at present, whereas the price of cane per maund is 0-1-0 in Java. This account for the disparity to a very great extent. Moreover, the excise duty of Rs. 2-0-0 per cwt., also acts as a drag upon the price. Coming to the railway freights, one notices that these amount to nearly Rs. 1-5-6 to Rs. 0-12-0 per maund for most outlying cities as from the main producing centres of U.P. and Bihar. This might suggest the localisation of factories in the neighbourhood of South Indian consuming centres but the cost of production of the South Indian centres is much higher than that in U.P. and Bihar, owing to several causes; and, therefore, here we have to consider mainly the cost of production in the Northern Provinces in comparison with Java and other countries.

The burden on the consumer is, moreover, *a necessary stage in the growth of a protected industry. In fact, it is the only price a backward nation has to pay to develop its industries.* Under the circumstances, to say that Protection has caused a burden to the consumer is to beg the question. The more important point to be decided is, whether the burden is unduly heavy and whether it is likely to be a permanent load

[39] The 1938 Tariff Board expressed the view (*Report*, pp. 72 ff. and *passim*) that between 1931 and 1938, there was a considerable rise in the efficiency of the mills.

round the neck of the consumer. The figures below are for retail prices of refined sugar in the principal countries of the world in 1938. The figures are typical of the international consumers' market. They show very clearly that the level of sugar prices in India is much lower than in most countries and not much higher than in Cuba, Dutch East Indies or the Philippines.

TABLE XV

Retail Prices of Sugar (1938)

(From International Sugar Journal, April 1939, p. 160)

Country	Price in Rs. per md. converted at the then exchange rate Rs.	a.	p.
Argentine	12	12	7
Brazil	6	14	8
Chile	9	9	4
Cuba	7	15	5
Egypt	12	3	3
South Africa	14	15	8
Australia	14	13	2
Dutch East Indies	6	12	7
Philippines	6	7	2
China	12	10	5
Japan	12	12	11
Czecho-Slovakia	21	3	3
France	16	0	6
Germany	30	9	8
Italy	35	3	6
Netherlands	27	6	6
Norway	16	0	6
Poland	19	0	2
Switzerland	9	13	3
United Kingdom	10	7	4
Canada	13	3	4
U.S.A.	12	1	5
India	10	0	4

It will be noticed that in some European countries (which are producers of protected beet-sugar), the prices are twice or even thrice as high as in India. It is also noteworthy that the Indian price is lower than the U. K. price, as also lower than the prices ruling in the three Dominions of Canada, Australia and South Africa. Obviously, the Indian consumer is faring far better than the consumer in the principal Empire countries. The Government of those countries are not evidently as wise as our own, whose solicitude for the Indian consumer's welfare gushes with so much warmth!

Apart from the above consideration, two more points emerge in this connection. Firstly, in spite of protection, the internal price of sugar has not risen much above the pre-war price. In 1913-14, the average price of Marhowrah sugar was about Rs. 7-5-0 per maund, while the imported price of Java sugar was Rs. 10-10-0 per cwt. or about Rs. 7-13-0 per maund. The current price of sugar *minus* the excise duty works out at almost the same value, while during 1934-38, the price minus excise duty was nearly Rs. 3 lower than the pre-war prices. This means that, at any rate, the consumer has not had to pay more for his sugar as a result of protection. It may be objected that prices have been falling everywhere and if it were not for protection, the Indian consumer would have benefited even more. But this assertion begs the question that prices have been falling to the extent supposed. Prices have fluctuated enormously during the last twentyfive years or so; only in the so-called "free-markets" have the prices been really low. As will have been seen from Table XV, the Indian prices compare favourably with the lowest prices in the world. Hence it must be conceded that the Indian industry has grown without inflicting much injury upon the consumer. Secondly, the apparently low prices in some of the "free markets" have themselves been facilitated by high prices for sugar in the "preserved" markets. The principal competitors of India, *viz.*, Java, Cuba, Hawaii—by comparison with whom, we are told, India suffers—have each their own protected market where differential prices can be charged, and thus are enabled to charge lower, even uneconomical, prices in the "free markets". India, unfortunately, is treated as a "free

market" under the International Sugar Agreement, *i.e.*, a market in which there is no quota restriction as to the amount of sugar sold by foreign producers. Consequently, the price at which Java, for example, is able to sell its sugar has no necessary connection with the cost of production (which, by the way, no one can accurately state). In view of these considerations, the assumption that if there were no protection Java could or would sell its sugar at the present ex-duty prices is fallacious and untenable.

There is another important aspect of the consumer question to be borne in mind. That is the aspect of employment or production of wealth which is at the bottom of all consumption. Those, who object to Protection on the ground that the consumer of the particular commodity is harmed, forget to calculate the addition to *total consumption of wealth caused by* increased employment. *This consumption of other commodities and the national gain of material and moral income due to increased employment are also to be entered in the balance-sheet of Protection.* Lastly, it must be pointed out that if the sugar industry *per se* has not been able to achieve a technical efficiency equal to that of industrially advanced countries it is not its own fault, but the fault is that of the entire economic *milieu* in which the industry has to develop. In other words, the handicap of sugar industry is due to the present piecemeal application of the doctrine of Protection and the present haphazard policy of industrialisation, which have prevented the cumulative growth of industrial technique, the availability of cheap subsidiary materials, cheap power and a skilled labour supply, and also the growth in the consumption of the very products of the new industry.

XIII

Tariff Board Enquiry, 1937

The second Sugar Tariff Board was appointed in March 1937 and it produced its Report in December 1937. But the Report was shelved for nearly fifteen months and published in March 1939. As the Government could not come to a decision in respect of the measure of protection required

in 1938, it extended the existing scheme of protection for another year up to 31st March 1939. The Government, when publishing the Report, simultaneously published a detailed resolution criticising some of the conclusions and findings of the Board, and also introduced legislation fixing the amount of protection for a period of two years, from April 1, 1939 to March 31, 1941 at a rate of Rs. 8-12-0 per cwt. (including the countervailing import duty of Rs. 2 corresponding to the excise duty of that amount) which was less than the former import duty (of Rs. 9-4-0) by eight annas per cwt. We shall, in this section, briefly touch upon the principal findings and arguments of the Tariff Board and the Government's comments thereon.

"As a result of the policy of discriminating protection", stated the Board, "it is no overstatement to say that the Sugar Industry in India has been revolutionised. From a country mainly dependent on imports of sugar, India has become the largest sugar-producing country in the world with an output equal to, if not in excess of, its requirements."[39] The acreage under sugarcane had expanded; there was a marked improvement in the quality of cane; there was a phenomenal increase in the number of vacuum pan factories; imports had dwindled to almost *nil*; and especially at the time of the enquiry, internal prices had fallen far below the import prices of sugar. The cost of sugarcane, a matter of vital importance to the industry, was fully investigated by the Board. In this connection, they stated that although the previous Tariff Board had fixed the fair selling price of cane (including the specific cost of production as well as interests on working capital, insurance against damage to crop, cost of transport and profit) at 8 annas a maund and hoped that it would be reduced to 6 annas a maund at the end of 15 years, actually the price paid by the U.P. and Bihar factories between 1935 and 1937 was only 3 annas per maund.[40] The Board estimated that, taking all points into account, 3 annas 9 pies was a

[39] Report, 1938, p. 17.

[40] Owing to fixation of prices at artificial levels under the Sugar Factories Control Acts, the true level of prices cannot now be gauged.

reasonable estimate of the cost of cultivation of sugarcane for the whole of India, and that the final price of sugar cane delivered at factory would be about 5 annas 6 pies per maund. Although the picture has been blurred by later events, especially the fixation of prices by some of the Provincial Governments at artificially high levels, these figures are valuable as indicating the true cost of production of sugarcane, at which under normal circumstances, the sugar industry can draw its supplies of the raw material. They also serve to show the extent of subsidisation of sugarcane cultivation by the Provinces concerned at the expense of either the manufacturers or the consumers of sugar. Turning to the cost of manufacture, here also the Board reported considerable progress in the efficiency of extraction and manufacture. They estimated the manufacturing costs for a factory of a normal size (about 500 tons crushing capacity) as follows:—

TABLE XVI

	Rs.	a.	p.
1. Cost of raw material—cane at 5as. 6ps. per md. and 10.5 mds. of cane per md. of sugar	3	9	9
2. Manufacturing charges	1	12	0
3. Depreciation per md. of sugar	0	6	8.7
4. Interest on working capital	0	2	1.7
5. Profit on Block Capital per md. of sugar	0	15	2.7
Cost of production per md. ...	6	13	10.1
Cost of production per cwt. ...	9	5	6

The Tariff Board's estimate of cost was based upon an average price of 5 annas 6 pies per maund of sugarcane. However, as we shall see in a subsequent section, in at least U.P. and Bihar, owing to a combination of circumstances much more than this price had to be paid by the manufacturers. On the other hand, the Board, from indirect information obtained by them, estimated that in Java the cost of manufacturing was as low as Rs. 2-1-8 per maund exclusive of interest on capital and profit, and that, including these and

freights, the selling price would amount to Rs. 2-10-6. However, actually, the NIVAS (the Javanese Sugar Syndicate) could sell sugar ex-harbour at Rs. 2-7-0 per maund. Adding freight, port and other charges, the minimum price at which Java could land sugar in India would be Rs. 2-7-0 per maund. Before comparing this minimum import price with the fair selling price of Indian sugar, the Board made allowance for quality and for freight in the case of Indian sugar. The previous Tariff Board had made an allowance of 4 annas a maund for the difference in quality. The Indian producers contended that Java sugar commanded a premium of 8 annas over Indian sugar; *i.e.*, that consumers would prefer Java sugar to Indian sugar even if they had to pay 8 annas a maund more. For equalisation of quality, therefore, they claimed an addition of 8 annas to their costs. The Board after making a full enquiry, came to the conclusion that 5 annas would be an adequate allowance for quality. As regards freights, the previous Board had not made any allowance, because the production of Indian sugar in 1929-30 was only 90,000 tons, all of which was sold in the interior where factories enjoyed a freight advantage over imported sugar. Now, however, the position was different. Indian sugar was being sold in the ports also and it was here that the competition was really keen. The Board felt that "Indian sugar should not be at a disadvantage in respect of freight in ports and other markets where it is possible that Java sugar could compete."[41] The Board calculated that the average freight from factories selling in ports was about 9 annas per maund. Thus the final computation of the fair selling price was as under:—

	Per maund Rs.	a.	p.
Manufacturing cost	6	13	10
Difference in quality	0	5	0
Allowance for freight	0	9	0
Total ...	7	11	10

[41] Report, 1938, p. 89.

The difference between the fair selling price of Indian sugar, *viz.*, Rs. 7-11-10 and the minimum import price of Java sugar, *viz.*, Rs. 2-7-0 was Rs. 5-4-10, or Rs. 5-5-0 per maund, in round figures. Hence the Board recommended a protective duty of Rs. 5-5-0 per maund or Rs. 7-4-0 per cwt., for the period of 8 years from 1st April 1939, which was the balance of the 15 years' period recommended by the previous Tariff Board. It may be recalled that the previous Tariff Board had recommended that the rate of protective duty after 1938 should be Rs. 6-4-0 per cwt. in the belief that costs of production would fall to that extent by then. However, that Board did not consider the possibility of a fall in the price of imported sugar *pari passu* with a fall in the costs of the Indian manufacturer. Moreover, the factor of freight disadvantage, involving an extra cost of marketing to the Indian producer of 9 annas, was not taken into consideration by the previous Board.

Other important observations and recommendations of the second Tariff Board were: (*i*) that permission should be granted for the manufacture of power alcohol on the understanding that it bears the same rate of duty as petrol; (*ii*) that research work on the agricultural side was inadequate, and, therefore, an allotment of 3 annas per cwt. from the excise duty should be made for central research and assistance to Provincial agricultural departments; (*iii*) that a marketing survey of the industry should be undertaken; (*iv*) that the additional excise duty levied in 1937 had unfortunate consequences for both the cane-grower and the manufacturer and that, at the prevailing level of prices, the existing rate of excise duty was out of proportion; and (*v*) that the rationalisation of the industry under some form of State control was desirable and that for this purpose an all-India conference representing all interests should be convened. Of these several issues, that of the excise duty is of particular interest owing to the subsequent objection raised by the Government questioning the right of the Tariff Board to discuss the question of excise duty, which was in the Government's view a purely "revenue measure."

XIV

The Sugar Excise Duty

In order to compensate for the loss of revenue from imports the Government, as stated before, introduced an excise duty in 1934, at Rs. 1-5-0 per cwt. This was later, in 1937, increased to Rs. 2-0-0 per cwt. For both, there has been a countervailing import duty added to the protective duty. The Tariff Board in 1937 considered the consequences of this duty *in extenso*.[42] They stated that the rise in sugar prices from Rs. 8-4-0 per maund in March 1934 to Rs. 9-0-0 per maund in May 1934 indicated that the burden of the duty was mainly borne by the consumer (to the extent of Re. 1-0-0 per cwt., the balance of 5 annas being borne by the manufacturer and cane-grower). In 1934, the Government had given one month's notice and the market was able to adjust itself and although the duty pressed heavily on the newly started factories, in the opinion of the Board, it "had a steadying influence on the industry in so far as it put a check on the flotation of inefficient concerns."[43] The increase of the duty by 11 annas a cwt. in 1937, however, was imposed by the Government without any notice being given to the trade, and the consequences on the industry, which had already gone through an ordeal of suffering during 1935-7 owing to a variety of causes, were disastrous. The objections taken by the sugar interests were principally: (*i*) that the enhancement of the duty was premature in view of the impending Tariff Board enquiry; (*ii*) that the burden of the duty would fall not on the consumer but on the factories and the cane-growers; (*iii*) that as against the fall in the revenue from imports there had taken place an increase in revenue in other directions mainly due to the sugar industry; and (*iv*) that the duty was likely to drive the industry from British India into the Indian States. It must be observed that, unlike 1934, during 1937 the price of sugar actually fell some time after the imposition of the duty, thus indicating a demoralisation

[42] Ibid., p. 157.
[43] Ibid., pp. 156 ff.

of the industry. The duty had absolutely no effect on the consumer but was fully borne by the manufacturer. The excise duty, at a time when sugar prices were already on the decline, constituted a disturbing element and accentuated the difficulties of the situation.[44] The Tariff Board fully demonstrated that in U.P. and Bihar, the duty fell largely on the cane-grower, while in the other provinces on the manufacturer. For a typical factory of over 1000 tons, in May 1937, the average cost of producing sugar per ton was Rs. 164.98; the average selling price, Rs. 188.50; thus, the margin of profit, Rs. 23.52; and the excise duty Rs. 40, which was 170 per cent of the margin of profit. The Board quoted the Fiscal Commission Report in support of the position that the excise duty, in principle, was to be levied, provided it did not press too heavily on the poor and, *in the case of an industry requiring protection*, it did not entrench on the degree of character of such protection. They, therefore, remarked that "previous investigation by a statutory body of changes in the excise duty is desirable", on the analogy of the practice followed in the United Kingdom, where under the British Sugar Industry Act, the Sugar Commission is empowered to make recommendations as to the levy of an excise duty without any disturbance to the industry.

In their *communiqué* on the Tariff Board Report, dated March 30, 1939, the Government took exception to the Board's passing their *obiter dicta* on the excise duty. In the first place, the Government said, the incidence of the excise duty would normally fall on the consumer only, because "in the absence of effective competition, it is the natural and inevitable tendency for indirect taxation to be borne ultimately by the consumer." The fall of sugar prices between 1934-1938 was due to overproduction; there was, in the Government's opinion, "nothing to show that if the duty had not been imposed, prices would not have fallen still lower by an amount equal to, or not far short of, the amount by which duty was increased." Moreover, latterly when prices rose, even Provincial Governments found it possible to levy addi-

[44] Ibid., p. 158.

tional taxation on the industry. Secondly, the Government questioned the right of the Board to pass any judgment on the excise issue. In their view, the task of the Board was "to determine the extent of protection against foreign competition that should be afforded to the sugar industry and with the principle already established that the protective element should be added to the amount of excise duty in determining the rate of import duty, the level of the excise duty did not become relevant to that task."

We shall briefly consider both these arguments of the Government of India. As regards the question of incidence of the excise duty, the "natural and inevitable tendency" which they mention is not really either natural or inevitable. The incidence of a duty, as any text-book writer on public finance can tell us, is divided between the consumer and the producer in the proportion of the respective elasticities of supply and demand. If supply is inelastic or urgent, the burden will largely fall upon the producer, and, conversely, if the demand is inelastic, it will fall upon the consumer. Surely, then, at a time (as in 1934-38) when there was over-production of sugar, the supply being inelastic, relatively to demand, the greater proportion of the incidence is bound to fall upon the producer, whether he be the manufacturer or the cane-grower. The reason given by the Government, *viz.*, the absence of external competition is beside the point; at the most it will be worth consideration, when there is an internal monopoly, where the monopolist may add the excise duty on to his usual price and thus recoup himself if he can, though even there certain circumstances may prevent him from doing the thing thoroughly. Under the conditions ruling in the sugar industry between 1935 and 1937 the burden of the duty was bound to fall upon the producer and, thus, to aggravate the existing situation. The Tariff Board was perfectly correct in this line of thinking. The fact that later sugar prices rose and the producer obtained relief is not relevant to the objection that the excise duty played havoc with the protected industry during the period under consideration. A moderate duty might have been tolerable, but one which directly impinged upon the producer's earnings was, no doubt, contrary to the spirit of the

entire scheme of protection. Unfortunately, the attitude of the Government was somewhat callous and, instead of helping the industry out of the morass of overproduction, they persuaded themselves that an excise duty was the best method of remedying overproduction. As it is, if it were not for the world recovery of the sugar trade which took place later, the duty would have been a potion of death for the industry. Even, however, with rising sugar prices, the duty at the present rate is very burdensome to "whatever shoulders that will ultimately bear it." By taxing the sugar industry on all fronts, it cannot be expected that there would be any expansion in the market for sugar; for higher prices are bound to restrict consumption and thus injure a growing industry. From this viewpoint, an excise duty becomes justifiable only when the industry is a full-grown one. To levy excise during the *currency* of protection is to follow a contradictory and harmful policy. If the Government's anxiety is to raise revenue, there are other well-known methods of doing it.

Thus it will be apparent that, on strictly theoretical grounds, the Tariff Board were fully justified in discussing the repercussions of the excise duty on the fortunes of the protected industry, for the simple reason that such repercussions were diametrically opposed to the *raison d'être* of protection. The Government, however, contended that the consideration of a purely revenue measure like the excise duty lay outside the scope of the Board's functions. Yet apart from the theoretical aspect of the matter, from the purely technical standpoint also, the Board were, it must be admitted, quite within the scope of their functions, in discussing the excise duty and its inter-relation with protection. Part (*b*) of the Resolution of the Legislative Assembly, dated February 16, 1923, which recommended the constitution of the Board required the Board, in the application of the principle of protection to pay regard to "the financial needs of the country and to the present dependence of the Government of India on import, export and excise duties for a large part of its revenue." How can the Tariff Board do justice to the question of the Government's revenue from excise duties, if they are precluded from frankly discussing the need

or value of such duties? Not only this, but the Fiscal Commission itself envisaged this as one of the duties of the Board. In paragraph 305 of their Report, the Commission clearly stated that one of the Board's ordinary functions should be "to consider the effects of excise duties on Indian industries."[45]

XV

The International Sugar Agreement

The International Sugar Agreement was signed in May 1937 by representatives of the Government of 21 major sugar-producing countries of the world, including India. The headquarters of the International Sugar Council is at London. The Council determines from time to time the export quotas of the sugar-exporting countries in relation to the "free markets" of the world. Most of the producing countries have erected tariff walls to protect their internal markets and to preserve them for themselves. Under the Agreement, it is only the "free markets" for which export quotas are allotted; besides, there is the British preferential market, to which the British Colonial Empire, Australia and South Africa are permitted to export. The Government of India have signed the Agreement on behalf of the Indian industry agreeing that India will not export sugar by sea to any of the free markets, except Burma. Even in the British market there is no access for Indian sugar, although this privilege is accorded to Australia and South Africa who have no superior advantage in the production of sugar as compared to India. What is more and worse, India is treated as a "free market" where any country can sell its sugar at whatever prices and up to a total quantity of 50,000 tons. The Tariff Board commented upon this anomalous situation as follows:—

[45] See Report of the Fiscal Commission, p. 145. It is noteworthy that the Commission were of the opinion that "if the producer is unable to get a higher price from the consumer, the tax will operate directly to reduce the former's profits, and may do serious injury to an industry that requires protection." (Ibid., p. 73).

"Under the terms of the recent International Sugar Agreement, India is debarred from exporting sugar by sea except to Burma. The question of the export of sugar to Burma and the possibilities of developing any export trade by land are dealt with elsewhere in our Report. On the other hand, India has been included in the Free Market to the extent of 50,000 tons. It appears to us somewhat anomalous that India should be debarred from exporting sugar and at the same time be a 'free market' for imports when its internal production is already equal to its consumption." (*Report*, 1938, p. 89).

The basic export quota for the various exporting countries during the year commencing from September 1, 1937 and ending August 31, 1938 was fixed at 3,611,000 metric tons. During the year 1938-39, this quota was estimated by the Council at 3,682,500 tons. But latterly the Council felt that the requirements of the free market would fall short of the aggregate by over 400,000 tons. Therefore, the quota was reduced by 5 per cent generally. In May 1939, however, owing to the prevailing shortage of sugar supply, the British delegation made representations to the Council drawing attention to the desirability of releasing additional quotas. Accordingly, re-allotments were made to the several exporting countries. It is to be noted that during the course of the year 1938-39, when there was a growing shortage of international sugar, the Indian producers could have sold sugar in the free markets but for the restrictions imposed by the Agreement. When the major sugar-producing countries of the world, comfortably sheltered behind tariff walls in their own or in the associated markets, are able to sell their sugar at differential prices in the "free markets", the "self-denying" ordinance imposed upon this country by the Government is an interesting commentary on their anxiety to help our struggling industries. Even within the British Empire, Indian sugar does not enjoy any quota or privilege granted to the other sugar-producing countries of the Empire. The Tariff Board stated that if the Colonial preferential rate of duty were levied on Indian sugar (of polarisation not exceeding 96°), as on Mauritius sugar, India would be able to export to the British market, and recommended that when the present restrictions of the Agreement were removed, "the matter should be fully investigated and if it is found that the industry cannot manufacture raw sugar at a reasonable

profit, some sort of subsidy out of the receipts from the sugar excise duty may be given to encourage the production of raw sugar."[46] The Agreement terminates on the 31st August, 1942. It is to be hoped that the Government of India the greatest sugar-producing country in the world, not only needs foreign markets, but that the future progress of her sugar industry depends upon the maximum possible scope being made available for its development.

XVI

Fixation of Sugarcane Prices

In the year 1934, the Governments of U.P. and Bihar made rules under the Sugar Cane Act of 1934 regulating the purchase of cane and fixation of minimum prices to be paid for it. Conferences have been convened annually by the two Provincial Governments for considering the question of modification of the basis on which the minimum prices were to be fixed from time to time. In 1937, a single irreducible minimum price was fixed for sugarcane and it was announced that the factories in the two Provinces would have to pay 5as. 3ps. per maund for gate cane and 5as. for rail cane. Prior to this there was a sliding scale, which linked the minimum cane priced with the market price of sugar on the basis of the formula,[47] $C=(S \times P)/200$. In 1938-39, the U.P. and Bihar Governments fixed the minimum prices for the season at 6as. 9ps. per maund for gate cane, 6as. 6ps. for rail cane purchased within a radius of 28 miles from the factory, and 6as. 3ps. for rail cane purchased beyond that distance. Subsequently in January and March 1939, in view of the rising prices

[46] Report on Sugar, 1938, p. 135.

[47] In this, C was the price of cane in annas per maund, S the extraction percentage and P the average price of sugar in annas per maund. The formula can be explained as follows: If S is the extraction percentage, one maund of sugar is equal to 100/S maunds of cane. Since the cost of cane forms nearly 50 per cent of the cost of sugar, the price of 100/S maunds of sugarcane will be P/2, where P is the price of sugar per maund. Thus, the price per maund of cane$=C=(S \times P)/200$.

of sugar, the cane prices were raised all round by 1 anna each time. Finally, after considerable and prolonged discussions with the sugar interests, the Governments decided in 1939-40 to revert to the old system of relating cane prices to current sugar prices which was in operation prior to 1937. The sugar interests, as represented by the Syndicate, have been consistently opposed to keeping up cane prices artificially high, on the grounds, firstly, that the sliding scale hinders the industry from reaping any profit during periods of high prices; secondly, that it prevents the development of the market for sugar, by setting up a vicious circle in which sugar prices are constantly chased by the cane prices; and, thirdly, that the factories in the two Provinces are injured by the progressive expansion of the sugar industry in the other Provinces at their expense. Thus, whether from the viewpoint of the cane-grower or the manufacturer in the two Provinces, fixation of cane prices at uneconomically high levels has been harmful, for, ultimately, the prosperity of the cane-grower is bound up with that of the manufacturer. Dr. Katju, Minister for Industries in the U.P. was reported to have said that he would very much like the cultivator to get his cost of production of cane and at least one anna per maund as profit on cultivation, and also that the cultivator should get some share in the rise of sugar prices. This idea of making available to the cultivator a part of the profit due to high sugar prices has been responsible for the chaos created in the two principal sugar-producing Provinces of this country. The Syndicate complained that it was impossible for them to consider the reduction of prices of sugar unless cane prices were reduced first, and as there is a time-lag between the purchase of cane and the disposal of the final commodity, there was no doubt some point in this argument. On the other hand, the Governments concerned suggested that the high prices of sugar were not the result but the cause of high prices of cane. Though the intentions of the Governments were laudable, the interests of the final consumer and of the industry as a whole and the stability of the relative position of the cane-grower, manufacturer and consumer were not given due consideration. The purpose of the protective tariff adopted since 1931 has been to develop

the sugar industry primarily on a stable basis and thus secure to the agriculturist a permanent source of profit from a commercial crop sold at economical prices. Thus the advantages of protection must be fully reaped by the industry in the first instance, so that it should be able to set its house in order and stabilise itself on a permanent basis. In the previous sections, comment has already been made on the comparative disadvantage from which India suffers in respect of the supply of cane at economical prices. If ultimately protection is to be justified, both the industry and the cultivators of sugar have to be trained to a situation in which they will be able to obtain normal returns on their investment. Nothing is gained by allowing a permanent inflation of a particular section of agriculture at the expense of others, such as has resulted from the unnaturally high prices obtained from sugar. Owing to the attraction of high prices, the cane cultivation has been unduly encouraged in the Provinces of U.P. and Bihar; this has led to over-production of both *gur* as well as sugar of late; and the repercussions of the glut are bound to be felt on all sides in the next few years, unless there are miracles in the world markets for sugar, and the possibilities of the export of surplus sugar are realised. Moreover, there is no doubt that, in the absence of similar price control in the other cane-producing Provinces and States, the sugar industry in other areas has also been artificially, if not insecurely, buttressed up. It is clear from the foregoing remarks that the correct method of controlling cane prices is to work out the actual cost of cultivation and, after making adjustments for profit and seasonal fluctuations of supply, to fix prices at *economical* levels. The three factors of cane-cultivation, manufacture and sugar consumption must be established in mutual harmony and balance with one another. If, however, it is found that the industry itself is deriving bloated profits from year to year, the proper course would be to leave the Central Government to adjust the degree of protection granted. In any case, it cannot be forgotten that the ultimate source of stability for both cane and sugar is the healthy development of the internal market which is not possible unless the interests of the consumer are adequately and permanently protected, without injuring the growth of cane and sugar production.

XVII

Conclusion

We may conclude this Chapter by briefly summarising the findings of the foregoing pages. The first thing to be noted is that the sugar industry has more than fulfilled the expectations of the Tariff Board by its phenomenal growth, by its more or less complete elimination of foreign imports of sugar within a period of four years after protection was first granted, by its ability to hold its head above water during one of the most severe depressions the world has ever known, and by its preparedness to set its house in order in spite of numerous handicaps, such as the heavy excise duty imposed in a period of trial and the high costs of sugarcane necessitated by the agricultural policy of some of the Provincial Governments. It may be truly asserted that the sugar industry has been the Beast of Burden, so far as taxation is concerned. A high excise duty, the sugarcane cess levied by the U.P. and Bihar Governments, the inflated prices of sugarcane itself, import duties on machinery, income tax on profits (not to mention the new excess profits tax), unduly high freights on sugarcane and sugar—in spite of these numerous handicaps, the sugar industry shows a defying virility of growth. This is because sugar stands in the most favourable position in India. As one writer puts it, "Here was India with the biggest crop, the biggest consumption and the largest natural advantages, and to crown all, protection was granted to the industry !"[48] At the same time, no one can deny that a number of defects have developed during the *first few years of protection*. The critics, however, have exaggerated the defects and overlooked the shortness of the period during which the industry has been called upon to justify protection. The Government, far from assisting the industry or at least allowing it to set its house in order, has actually made matters worse by imposing an excise duty at almost a punitive rate in its moment of trouble. Applying various tests, such as employment, prices, costs, revenue and profits of Companies,

[48] S. Ganapati Rao, *Indian Sugar Tariff*, p. 73.

we come to the inevitable conclusion that within a comparatively brief period the industry has not only expanded but is now on its way to strength and stabilisation. It must be remembered that countries like Hawaii, Cuba, Java, Mauritius and others, have taken years to build up their respective sugar industries and *some of them are still unable to do without the protecting shelter of reserved markets*. It would be trite to say that the sugar industry in India cannot be expected to perform miracles in a few years. But there is no doubt that given a fair chance and a trial of a normal period of protection (which may be, according to distinguished authorities like Professor Taussig, as long as even twenty to thirty years), the Indian sugar industry may be expected to belie the fears of its critics and be able to do without protection in the course of time. For this, however, a co-operative and concerted attack will have to be made by the Governments and the industry upon the problems of cane production, sugar recovery and utilisation of by-products, while unnecessary impediments, such as the excise duty, or the recent restriction imposed by the International Sugar Agreement, must be removed. What is more, the Government must extend the protection scheme to cover a complete period sufficient *to enable the industry to develop fully*, and not play ducks and drakes with its fiscal policy, as it has done in the past.[49]

[49] An event of considerable importance to the sugar industry was the establishment of the Indian Sugar Syndicate in July 1937. At the time of its formation, the Syndicate was widely acclaimed as a very suitable piece of machinery calculated to deliver the industry from the chaos which ruled in 1936 and the following years. Recently, however, doubts have arisen as to the success of the Syndicate in tackling the internal problems of the industry. Two schools of thought have developed within the industry itself, one believing that the best safeguard of orderly marketing within the country would be perfect competition and survival of the fittest, and the other pinning its faith on an increasing measure of governmental control and centralisation of selling. Recently, the Provincial Governments withdrew their legal recognition of the Syndicate, but for fear of a recurrence of chaos, *status quo ante* was restored with modifications. As the whole matter is controversial and not very relevant to my conclusions, I have preferred to omit a detailed discussion of the functioning of the Syndicate.

CHAPTER VII

PAPER AND PAPER PULP

I

Introductory

Hand-made paper has been a speciality of India from quite early times, but the manufacture of machine-made paper apparently dates from 1870, the year in which the Bally Mills were started on the bank of the Hooghly. This Company was not very successful and when it was liquidated its machinery was taken over by the Titaghur Mills which were established in 1882. The Titaghur Mills also absorbed the Imperial Paper Mill of Kankinara in 1903. For nearly a quarter of a century, no new venture was started, owing to the comparative lack of success of the earlier ones. However, the last war gave a fresh fillip to paper manufacture in India. A new concern called the Naihati Mill was established by the Indian Paper Pulp Company Ltd., on the banks of the Hooghly in 1918 for the production of pulp and paper from bamboo.[1] Apart from these Bengal concerns, small concerns had been established in other parts of India; the Upper India Couper Mill (1879) at Lucknow; the Deccan Paper Mill (1887) at Poona; the Raniganj Mill owned by the Bengal Paper Mill (1891); three other paper mills, two at Bombay and one at Punalur in the Travancore State were also started about this time. The Karnatak Paper Mills (1927) for making paper from paddy, straw and bamboo, at Rajamundry, and the Punjab Paper Mills Company (1929) for making paper from *bhabbar* grass, were two important recent concerns. In 1931, the Tariff Board reported: "At the time of the Board's

[1] Tariff Board Report on Paper and Paper Pulp, 1924, p. 192 (Evidence).

previous enquiry in 1924-25, there were nine mills in India, three having four machines each, one having two machines each, and the rest one each. So far as we have been able to ascertain, the position today is that three mills (the Titaghur Paper Mills Company's mills at Titaghur and Kankinara and the Bengal Paper Company's mill at Raniganj) still have four machines each, the Upper India Couper Mills at Lucknow still have two machines and the India Paper Pulp Company's mill at Naihati which then had one machine now has two; of the three mills—two in Bombay and one at Punalur in Travancore, the Director of Industries, Bombay, has informed us that one of the Bombay Mills is at present closed, the other Bombay mill was in 1924 acquired by the Deccan Paper Mills Company which they work in addition to their mill at Poona; and of the mill at Punalur, we have obtained practically no information regarding its capacity or output. Of the two new mills, that at Rajamundry, which was partially constructed in 1924 did not actually start work till April 1930 and is even now working only spasmodically and on a very small scale. The Punjab Paper Mills near Saharanpur started work in 1929 and worked altogether for about nine months, when the Company went into liquidation. Thus, apart from the Travancore Mill (at Punalur), the industry is now carried on in eight mills with 20 machines in all."[2]

In 1924, barring the Karnatak and Punjab Mills, the full annual capacity of the old nine mills was estimated by the Tariff Board to be in the neighbourhood of 33,000 tons. Actually, in 1928, the total production of paper in India was 38,100 tons. The Tariff Board estimated that out of a total consumption of unprotected paper of about 100,000 tons, the market open to Indian paper would be 50,000 tons in addition to the existing consumption. They, therefore, opined that the Indian market was not large enough to support any great development of the industry, and that unless the demand for the better qualities of paper substantially increased, no Indian mill would be able to compete with the foreign mills which specialised in the finer qualities. In recent times,

[2] Tariff Board Report, 1931, p. 7.

however, production has increased considerably. In 1939, there were 11 paper mills working in India, while some of the old concerns (like the Karnatak Paper mills) are being revived. The aggregate production in all the "reporting" mills in India amounted to 13,97,000 cwt., in 1939-40 and 1,184,000 cwt., in 1938-39, as compared to 1,076,000 cwt. in 1937-38, 970,000 cwt. in 1936-37, 961,000 cwt. in 1935-36 and 889,000 cwt. in 1934-35. The capacity of the producing mills has increased very much. Till recently, the three important mills, the Titaghur Paper Mills Company, the Indian Paper Pulp Company and the Bengal Paper Mills Company were producing more than 80 per cent of the total Indian production. The establishment of the new mills, prominent amongst which are the big factory of the Rohtas Industries Ltd., and the Shree Gopal Paper Mills, has however led to the emergence of "excess capacity" in the Indian paper industry,—a problem which will have to be tackled in the coming years by the industry itself and by the Government. The paper industry, like the iron and steel or cement industry, represents the typical case of an industry whose progress is held up by the lack of general industrialisation of the country, which alone is calculated to create a cumulatively increasing demand for the products of each industry. The state of industries and commerce in the country, and of literacy and education, is the determinant of the demand for paper of various kinds. It is here that the scope for mutual assistance and development lies; but, unfortunately, the general condition of industries is still very lethargic, owing to the unprogressive and indifferent policy followed by the Government in the past in this connection.[3]

There is also another circumstance which has led to the comparative stagnation in the Indian paper industry. It is important to note that the saturation point has been temporarily reached in regard to the protected varieties of paper. Thus, while the increase of India's consumption of the protected varieties was from 49,000 tons in 1930-31 to 55,000 in 1936-37, the increase in the consumption of unprotected varieties was far greater *viz.*, from 105,000 tons to 153,000

[3] Cf. Chapter II, Section i.

tons during the same period,—which shows that there is considerable scope for the expansion of the paper industry in the unprotected varieties. This is an aspect of the protection of paper industry which deserves early attention.

II

Protection—Its Extent and Effects

Although prior to the last war, the Indian paper industry was seriously threatened by the competition of paper from Europe, especially from Germany where the Foreign Commercial Department was trying to capture the Indian market, the war provided not only a respite but also a short interval of prosperity. In the post-war years, however, the industry was again faced by the reappearance of cut-throat competition from the paper producers of Europe, and it seemed as if several of the mills would have to be closed down. The industry, therefore, applied for protection in 1924, and its case was considered very carefully by the Tariff Board, who reported in 1925.

Certain types of paper were excluded from the scope of the enquiry. The imports of paper into India fall into six main classes: (1) newsprints; (2) printing paper; (3) writing paper; (4) packing and wrapping paper; (5) old newspapers, and (6) other sorts. Of these, India could and still can produce only the second and third classes of paper. In the case of newsprint, cheapness is the primary consideration and it is generally produced at a very low cost from mechanical wood pulp. It has been so far impossible to produce newsprint at a low cost with Indian material. The term "newsprint" is a loose one and technically imprecise; therefore, the Tariff Board deliberately avoided the use of that term. In proposing import duties on imported paper, they excluded from their operation newsprint, which contains about 70 per cent of mechanical wood pulp, and suggested that the duties should apply to paper containing less than 65 per cent mechanised wood pulp, thus leaving a clear margin of 5 per cent to cover doubtful cases.

The Board found that the total production of paper in 1923 was 27,000 tons, while imports amounted to 72,000 tons,

thus making up a total Indian consumption of 99,000 tons. After excluding the classes of paper in which the Indian industry had no chance of displacing the foreign imports, the Board estimated that the scope for further exploitation was not more than 20,000 tons of the imported paper which actually competed with the Indian paper. In recommending protection, the Board considered the case of the industry from the viewpoint of the triple formula. As regards the raw materials, the staple material for making paper (in 1924) was the *sabai* grass, which grew in abundance in Northern India. The right type of wood was not available to produce mechanical wood pulp, and, for the better quality of paper, pulp had to be imported from abroad. For the cheaper kinds of paper, *viz.*, packing and wrapping paper, rags, hemp, jute waste and waste paper were used, but, according to the Tariff Board, it was not established that India had any natural advantages in the production of this kind of paper. In the production of printing and writing paper, however, there was a great future for the bamboo paper pulp industry whose foundations were laid by the India Paper Pulp Company in 1918. The Tariff Board recognised that *bamboo* was inferior to *sabai* grass in quality; for, paper made of *sabai* grass was stronger and more durable, but nevertheless being hard it was not sufficiently tractable in the paper machine. Moreover, the market for the finer qualities of paper was considerably small as most consumers in India preferred cheap and inferior qualities of paper. The Board pointed out that "there is only a small demand for paper of this kind (made of *sabai* grass) in India and nothing would be gained by attempting to produce it."[4] They, therefore, concluded that there was no case for the protection of paper made from *sabai* grass, on the ground that such protection would never be a success for the further reason that the raw material (*sabai* grass) and fuel were not in close proximity to one another. On the other hand, "the supplies of bamboos are sufficient to meet the needs of all the paper mills in India and leave a surplus from which an export trade would eventually

[4] Report, 1925, para 36.

develop and that bamboo can be landed in a mill accessible by water transport from the forest at a cost low enough to make it a great deal cheaper than wood is to the European pulp manufacturer."[5] With the rapid diminution in the production of "coniferous" wood in Europe and America, sooner or later mechanical wood pulp must rise in price and there was a chance that bamboo pulp would hold its own against its superior substitute. In this connection, it is interesting to note that the Board came to the conclusion that much exploratory work would be necessary for reduction of manufacturing costs and for examining the relative superiority of the two methods of making bamboo pulp (*viz*., the sulphite process and the soda process), and that the Government themselves should advance the necessary capital to or guarantee a public issue of debentures by companies which were equipped and prepared for such exploratory work, instead of leaving it to private agencies to thrash out the question and possibly causing indiscriminate and wasteful investment. The Board suggested that this measure should be supplemented by an increase in the import duty on paper in order to facilitate the earning of profit during the period. It was the finding of the Board that the industry would not make any progress without protection and that if abundant supplies of bamboo were developed, there was a reasonable hope that after a legitimate period of protection, the industry would be able to stand on its own legs without any extraneous help by way of protective duties. This hope was further strengthened by the fact that the rapid exhaustion of mechanical wood pulp would enable bamboo pulp to compete on equal terms with the foreign products.[6]

It will be seen that the Tariff Board laid great stress on the development of the bamboo section of the industry on which alone the ultimate success of the industry depended. Accordingly, they recommended protection chiefly for printing and writing paper in the production of which bamboo pulp was useful, and they excluded newsprint, packing and wrap-

[5] Ibid., para 112.

[6] Report, 1925, para 131

ping paper, old newspapers and other sundry varieties like stereo, poster, chrome, flint and marble paper. Stereo paper is a highly absorbent paper not made by Indian mills, while poster paper required the erection of a special plant which none of the mills possessed. The three varieties of "litho" paper, *viz.*, chrome, flint and marble, were excluded at the request of lithographic firms. The Board recommended that a uniform specific duty of one anna per lb. should be imposed on all writing paper and printing paper (with a few exceptions) for a period of five years in the first instance. The existing duty was 15 per cent *ad valorem*. The new specific duty of one anna per lb. had the effect of increasing the duty on the cheapest classes of paper which really competed with the Indian paper. The restrictive effect of protection would be least felt in the case of the more expensive paper, because the burden of the duty would diminish as the price rose. The net effect of protection, according to the Board, would be that the price of 4as. per lb. would be secured to the Indian manufacturer and the Board considered that this was the minimum necessary under the circumstances. In addition to the duty, the Board further recommended a loan or guarantee of a public issue of debentures, of Rs. 10 lakhs to the India Paper Pulp Company at Naihati to enable them to purchase more machinery to test the sulphite process on a commercial basis. They also recommended the grant of similar financial assistance to any mill which was prepared to test the soda process.[7]

The Government of India rejected the Board's recommendations for the grant of financial assistance on the ground that in effect it meant assistance to one private mill, *viz.*, the India Paper Pulp Company, and that it was wrong in princi-

[7] Report, 1925, Annexure (5), p. 106. The Karnatak Paper Mill which intended to make paper from bamboo by the salt process was recommended for assistance provided the technical advisers of the Government were satisfied that the scheme had reasonable prospects of success. It may be noted here that the intention of the Board in suggesting the level of protection of 1 anna per lb., was to bring the prices of imported paper back to the old level corresponding to the old exchange ratio of 1s. 4d. per rupee.

ple to single out one company for preferential treatment when there were several competitors in the field. Besides, the sulphite process which was to be tested was covered by patent rights held by one of the members of this company. It cannot be said that the reason given by the Government was very sound or convincing. Even if the India Paper Pulp Company was the patent-holder of the sulphite process, it would have been possible to make the grant of financial assistance conditional upon the Company's preparedness to forego their patent rights and transfer them to the Government. In a European country, where there is always a complete accord between the State and industries, some such steps would have been taken. In any case, equal chance could have been given to the sulphite and soda processes by their exploitation in two or more factories. However, the traditional *laissez-faire* attitude of the Government stood in the way of such a policy being adopted. That the Company concerned could later on establish the partial success of the sulphite process is no argument in justification of the Government's attitude. However, the Government accepted the other proposal of a protective duty and in lieu of financial assistance extended the period of protection from 5 to 7 years. Accordingly, the Bamboo Paper Industry (Protection) Act, 1925, was passed giving effect to the proposals.

In 1931, the Tariff Board was again asked to make a complete enquiry into the working of protection granted to the paper industry.[8] The Board's chief finding was that

[8] In 1927, minor changes were effected in the scheme of protection to paper, on the recommendation of the Tariff Board. In 1925, the Board had recommended that newsprint should be excluded and accordingly they had suggested that there should be no duty on printing paper "containing not less than 65 per cent of the mechanical wood pulp." However, doubts arose whether this 65 per cent referred to the *fibre* content or to the total weight. The Government favoured the latter interpretation as it helped their revenue requirements. The Board, however, voted in favour of "fibre content" as the correct interpretation, on the ground that the other interpretation was against the intention of the Act, *viz.*, to exclude all newsprint. Again, in respect of paper containing no wood pulp at all, the Act was vague. As this class of paper competed with Indian paper, the Board proposed a change in the wording so

their hopes regarding the prospects of the bamboo paper industry were fully justified. The manufacture of paper in India had increased from 27,000 tons in 1924-25 to 39,000 tons in 1930-31, and the share of the Indian mills in the total consumption of paper of the protected varieties rose to 71 per cent. What is more, the paper mills had achieved reduction in costs in addition to expansion, and had adopted improved methods of production. But at the same time many of the mills had begun to make an increased use of imported wood pulp, because the price of foreign pulp had fallen considerably owing to over-production (which had taken place in spite of the growing scarcity of pulp-wood timber)[9]. This was regarded by the Board as an undesirable tendency.[10] The Board reiterated their view that the future expansion of the Indian paper industry depended on bamboo, and therefore, they recommended that, as a direct incentive to bamboo-pulp production, there should be a duty on imported wood pulp. It is interesting to note, in this connection that the Board added that the increase in the use of

as to make it subject to the duty. Another alteration was in regard to the rate of duty. It was discovered that the specific duty of 1 anna per lb., gave a yield substantially less than the former 15 per cent *ad valorem* duty did, in the case of certain types of paper. It was, therefore, proposed that the duty should be 1 anna per lb., *or* 15 per cent *ad valorem* whichever was higher. These various amendments were adopted in the Act of 1927.

[9] The increasing scarcity of pulp-wood timber was thus described by Lord Rothermere (quoted by *Capital*, 13th December 1938): "No increase is forthcoming from Scandinavia. After long enquiry and reflection, I see no influence at work capable of averting a pulp shortage, which the rapid exhaustion of pulp-wood timber is bringing nearer with mathematical certainty."

[10] During 1924-25 and 1930-31, the principal Indian mills produced finished paper made from imported wood pulp as under:

	1924-25 Tons	1930-31 Tons
Titaghur	5,716	8,522
Bengal Paper	1,725	4,801
Indian Paper Pulp	535	3,901
Upper India	...	305

(Cf. Report, 1931, Table VII, p. 15)

foreign pulp and the neglect of bamboo pulp were to be attributed to some extent to the refusal of the Government to encourage the bamboo-pulp section with financial assistance as recommended by the Board. In spite of the temporary over-production of wood-pulp and the consequent fall in its price, however, an ultimate shortage of pulp-wood timber was a certainty, though it was impossible to forecast its exact emergence. Thus, in 1931, the Board had no hesitation in recommending the continuation of protection; for, withdrawal of protection would lead to the disappearance of bamboo as a paper-making material and in view of the industrial possibilities of bamboo and the apprehended shortage of wood pulp, the disappearance of the bamboo pulp and bamboo paper would be a national loss.[11]

Accordingly, the Tariff Board recommended the imposition of a duty of Rs. 45 per ton on imported wood pulp (which was approximately the difference between the works cost of bamboo pulp and the price of imported pulp). They also recommended the continuance of the specific duty of one anna per lb. (or 15 per cent *ad valorem*, whichever was higher) on paper, on the ground that the effects of the reductions in costs due to cheaper bamboo pulp, coal and other materials, would be balanced by the increase in the price of imported wood pulp caused by the new duty on pulp. Both the duties were required to remain in force for seven years by the end of which, the Board hoped, the industry would be able to get over its difficulties in the matter of machinery or technique of production. The Board suggested that the precise definition of the kinds of paper to be classed as printing and writing paper should be left to trade usage.[12]

[11] Report, 1931, para 84.

[12] The Board also proposed that concessions should be granted to paper mills for the exploitation of forests and in respect of Government purchase of paper, subject to observance by the companies of the principles laid down in para 292 of the Fiscal Commission's Report. However, the Government shelved this proposal on the ground that para 292 of the Fiscal Commission's Report, applied to *new* concerns and not concerns which had been in existence at the time of the consideration of the question of granting assistance. (There is nothing in that paragraph to warrant this interpretation preferred by the Government. The

The Government of India accepted the findings of the Tariff Board regarding the continuance of protection on paper at the old rate of one anna per pound and the imposition of a new duty of Rs. 45 per ton on wood pulp for a period of seven years; but they could not accept the Board's suggestion that "trade usage" should be the means of determining the protected categories of paper. They held the view, and correctly, that the definition of protected articles should indicate as precisely as possible the intention of the Legislature and should be so framed as to include all such articles as are likely to compete with the indigenous product. As, however, the time left for enacting the new measure was insufficient, they decided to continue the old classification of paper, subject to one change only, *viz.*, a higher percentage of pulp content of 70 instead of 65 for imported printing paper, thus leaving the margin of 5 per cent to enable the customs authorities to make allowance for errors in test. The Bamboo Paper Industry (Protection) Act, 1932, was passed to give effect to these decisions. The duties were to remain in force till 31st March, 1939 and were subject to the additional surcharge of 25 per cent imposed by the Indian Finance Supplementary and Extending Act, 1931.

In 1935, the question of classification of paper for purposes of protection was referred to the Tariff Board. The arrangement suggested by the Board in 1931, that trade usage should be adopted and that the Government should consult representatives of the paper trade, could not work. There was no unanimity amongst the traders themselves and the vague description of the Acts of 1925 and 1932 regarding the printing and writing paper led to endless disputes between customs authorities and the importers. In the course of the Board's enquiry it was revealed that the existing description had given rise to two kinds of difficulties. In the first place, it encouraged the imports of a type of writing paper (such as the *badami* mechanical paper) which was ordinarily treated as printing paper but which escaped

conditions mentioned by the Fiscal Commission could be observed both by old as well as by new concerns.)

the protective duty owing to its high mechanical pulp content. This was against the intention of the law, for the entire market for writing paper was reserved for the bamboo paper industry. Secondly, the description led to large imports of certain superior classes of printing paper, which were not used for newspaper printing, but still escaped the protective duty owing to their high wood pulp content. The Tariff Board went into the whole question very carefully and suggested a new detailed classification which may be briefly summarised as follows:

I. *As writing paper*—Hard-sized duplicator paper, and hard-sized white and buff or badami mechanical paper. According to trade usage, the former is neither a printing nor writing paper, but in actual practice it is suitable for writing when it is hard-sized, and for printing when it is soft-sized. Badami paper also, as noted above, masqueraded as newsprint and owing to its high wood-pulp content escaped the protective duty, although it competed with ordinary writing paper when hard-sized and with printing paper when soft-sized.

II. *As printing paper*—(*a*) Unglazed thin news coloured, other than deep blue, of substance above 10 lbs. demy, and unglazed thin news white, buff or badami of substance above 7½ lbs. demy. Both these varieties are used largely for wrapping and decorative purposes but are described as newsprint and are capable of being used for printing also. As the Indian mills did not produce any paper below 10 lbs. demy which would have to compete with the former variety, nor any paper below 7½ lbs. demy which would have to compete with the latter, the two exemption limits of 10 lbs. and 7½ lbs. demy were respectively adopted. (*b*) Cover paper including machine-glazed pressings and wrappings over 24 lbs. demy. Most of these papers were being used for packing and wrapping but sometimes they were also used as cover papers and printed upon as covers for books, journals, etc. The customs authorities followed the procedure of levying the protection duty only on such papers as were "suitable for use as cover paper." But this was a vague practice. The Tariff Board suggested that a more precise definition would be to class all machine-glazed pressings and

wrappings above 18″×22″ of 24 lbs. per 500 sheets as cover paper and the rest as wrapping or packing paper. (*c*) Cartridge paper below 24 lbs. demy. This variety is suitable as drawing-paper, but inferior qualities can be used for printing also. The Tariff Board recommended a lower limit of 18″×22″ of 24 lbs. for 500 sheets, so as to exclude all real cartridge paper. (*d*) Soft-sized white and buff or badami mechanical paper of substance above 7½ lbs. demy. This is a superior type of paper, containing a high percentage of wood pulp and used for printing. It escaped the protective duty on account of its high wood-pulp contents and competed with indigenous printing paper.

The new classification proposed by the Tariff Board was adopted by the Government which issued executive instructions to the Customs Department to put it into effect, as in most cases fresh legislation was deemed unnecessary. Under this classification, the range of protection was considerably extended so as to protect the indigenous paper effectively from masquerading competition caused by faulty classification. The Government felt, moreover, that the industry had received an extra measure of protection in the surcharge of 25 per cent under the Finance Act of 1931, which in effect had raised the specific duty to 1 anna 3 pies per lb. and the alternative *ad valorem* duty to 18¾ per cent. The Government, therefore, decided to institute a departmental enquiry in 1936 as to whether the continuance of the surcharge was necessary. The Paper Makers' Association, however, contended that the new classification had not increased the price of the bleached varieties of paper which were their chief market and that though costs of production had been considerably reduced, subsidised foreign paper, mainly from Germany and Japan, was also selling at low prices. The Association, therefore, requested the postponement of the enquiry till the next Tariff Board reference in 1937. The Government agreed to this and along with the general reference also asked the Board to report on this question. The Board submitted an interim report dealing with the surcharge. The Board stated that although till 1937-38, the surcharge would have been necessary, it was no longer so in view of the rise in prices of imported paper.

The three principal companies, which represented 85 per cent of the total production, agreed to this; but others, which mainly depended on imported pulp, did not. But the Board took the view that the latter had a weaker claim to protection, as they relied on imported raw material, and further that the consumer was unnecessarily penalised by the surcharge. They, therefore, recommended the removal of the surcharge on both paper and paper pulp. The Government accepted the recommendation and adopted it by a notification on the 25th June 1938. There is no doubt that the removal of the surcharge hit the new companies, whereas in the case of the older companies it strengthened their position against their rivals. The argument regarding the burden on consumers was not justified, because, owing to a fall in costs of production and internal competition, paper prices were already lower in 1937-38 than in 1931.

The final report of the Tariff Board, which was submitted in May 1938, supported the claim of the paper and paper pulp industries for the continuance of protection, on the grounds, firstly, that results had justified protection; secondly, that withdrawal would be disastrous to the new mills; and, thirdly, that it would prevent the completion of the experimental work on bamboo pulp.[13] Cheaper imports of wood pulp, besides, would force the grass paper mills to give up grass pulp and take to wood pulp for production of the finer qualities of paper. The Board, accordingly, made the following main recommendations:

[13] It is to be noted here that the Tariff Board in 1938 found a general reduction in costs of producing paper. Fair selling prices for 1931 and 1938 were computed as under, showing much progress:—

	1931 Estimate	1938 Estimate
	Rs.	Rs.
Works cost	327	276
Overhead charges	73	61.5
Profit	64	40.8
Fair Selling Price per ton ...	464	378.3

1. There should be a protective duty on imported wood pulp of Rs. 35 per ton or 25 per cent *ad valorem*, whichever is higher.
2. The duty on the protected classes of paper should be 11 pies per lb.
3. The period of protection should be extended by seven years from the 1st April, 1939 and there should be a further enquiry at the end of 1939 to ascertain whether the new developments taking place in the paper industry necessitated protection for classes of paper not protected till then.
4. The customs tariff classification of paper recommended in 1935 was working satisfactorily and should, therefore, be continued with minor alterations.

The Government of India, while accepting the recommendation of continuance of protection, viewed the continued use of grass pulp with misgivings and regarded the supply of bamboo at Rs. 17 per ton (half the rate for grass) as sufficiently helpful to the growth of the industry. The grass pulp industry, according to them, had no claim to protection and, therefore, they decided to impose only an *ad valorem* duty of 25 per cent on imported pulp which would protect bamboo pulp at the lower prices but not grass pulp at the higher. Secondly, the Government of India reduced the protective duty on paper to 9 pies per lb. or 25 per cent *ad valorem*. Thirdly, the period of protection was fixed at 3 instead of 7 years. With one exception, viz., the duty on pulp which was also levied at Rs. 30 per ton in the alternative, these decisions were embodied in the Indian Tariff (Second Amendment) Act of 1939.

III

Conclusions

During recent years as a result of protection, the Indian paper and paper pulp industries have made a considerable progress, as may be seen from the following figures:

TABLE I

Production of Paper in India

(Cwts. 000)

	1939-40	1938-39	1937-38	1936-37	1935-36
Apr.	100.44	96.01	79.36	79.47	78.25
May	103.85	99.64	76.02	80.04	82.14
Jun.	107.14	102.53	84.27	81.20	77.58
Jul.	107.14	103.63	87.61	81.82	82.46
Aug.	108.61	108.23	84.43	84.81	82.22
Sep.	115.40	103.07	85.70	79.62	79.07
Oct.	122.03	102.10	87.08	78.30	80.32
Nov.	125.58	85.71	82.20	75.55	79.78
Dec.	130.33	90.25	88.07	85.51	82.22
Jan.	125.64	90.48	89.78	80.71	78.82
Feb.	122.55	94.45	85.34	77.28	78.08
Mar.	127.48	106.38	95.51	85.91	80.08
Total ...	1397.10	1143.50	1025.27	970.22	961.02

It will be seen that in the months following the commencement of the war (September 1939), there has been a great spurt in the production of paper owing to a rise in the prices of paper and partial cessation of foreign imports, particularly from Scandinavia. However, the limit of consumption of the protected varieties of paper which is available for exploitation to the Indian mills has already been reached. New mills have been or are being started. The Star Paper Mills have recently commenced production while the Mysore Paper Mills have passed the experimental stage and are manufacturing paper on a commercial scale, and in spite of the fear of over-production, new mills continue to be floated, the latest in the field being the Sirpur Paper Mills. Hitherto, there was a practical monopoly of the trade between the three older mills, viz., the Titaghur Paper Mills Company, the India Paper Pulp Company and the Bengal Paper Mills Company, which accounted for not less than 80 per cent of the total Indian production. These three mills, with

a total ordinary capital of Rs. 60 lakhs, were hitherto able to earn as much as 50 per cent on their capital. With the advent of the new mills and the margin of market available for exploitation being exhausted, this state of prosperity cannot last long. The present war may have given a temporary respite, but the prospects are bound to be less cheerful with a return to normal conditions. Powerful paper interests from abroad are bound to give a cut-throat competition to the Indian mills with a view to recovering their lost markets. There are two main lines of action open to the Government and the Indian producers in this connection. Firstly, it is imperative that the Indian mills should set their house in order during the present halcyon days by taking every possible step to reduce costs by renovations, adoption of new methods etc. and by strengthening their reserves by accumulating profits rather than frittering them away in paying fat dividends. Secondly, it is necessary that the Government of India should take a more active interest in the affairs of the industry. It is surprising that India with her large forest areas and favourable climatic conditions should not possess the proper species of coniferous timbers to yield a decent quality of pulp. Either a proper research has not been made or transport facilities stand in the way. The United States had been for long importing pulp from Canada, but recently after intensive research and by an active policy of afforestation, a kind of pine is being grown in the Southern States, which after five years of growth yield the proper quality of wood for pulp. In 1938-39, the imports of wood pulp, mostly for the use of the Indian paper mills, amounted to 277,000 cwts., valued at Rs. 26 lakhs as compared to 214,000 cwts. valued at Rs. 17 lakhs in 1937-38. This dependence of the mills on foreign supplies of "coniferous" wood can and should be mitigated by an active policy of forest research and afforestation.

In India, deodar and pine are of considerable importance among softwoods and the total area under coniferous species amounts to approximately 3½ million acres[14]. So far no

[14] Report, 1931, App. II, p. 113.

action has been taken by the Government either to increase this area or to explore the possibilities of developing new supplies of coniferous wood. The Tariff Board, in granting protection, laid great stress on the value of active research in developing the technique of bamboo pulp production. However, the Government's policy has been generally one of stiff indifference. It may be noted here that even the Tariff Board in 1938 expressed dissatisfaction at the inadequacy of the grant (Rs. 25,000 only) to the Paper Pulp Section of the Dehra Dun Forest Research Institute (*vide* Report, 1938, p. 71). The chief difficulty in regard to the economic possibilities of the bamboo has been that of transport costs, for the supply of the raw material, bamboo, and that of power supply viz., coal, are located at considerable distances from one another. Consequently it is a matter both for power policy as well as for railway freight policy. Unfortunately, the hydro-electric power supplies of India continue yet to be inadequately utilised. On the other hand, the railway freight policy of the country is far from helpful to its industrial development: even the orthodox doctrine of charging "what the traffic can bear" does not appear to lend itself to giving concessions to traffic which might prove mutually advantageous in the end! Up to 1932, there had been increased imports of wood pulp, which naturally appeared to be contrary to the policy of encouraging the use of bamboo. However, in 1931, the Tariff Board properly pointed out that the increased use of imported wood pulp was not undesirable, so long as bamboo also was at the same time being increasingly used, and that the rejection of the Board's proposal for financial assistance to companies using bamboo was chiefly responsible for the anomaly.[15]

The Government of India have all along taken the stand that it is on bamboo pulp that the Indian paper industry must be based and that protection must not bolster up un-

[15] Report, 1931, pp. 15-18. The quantity of bamboo pulp used increased in the six years, 1931-7, from 5,228 tons to 19,281 tons; of grass pulp, from 9,049 to 11,510; on the other hand, the quantity of imported pulp fell from 20,081 tons to 10,976 tons in the same period (Report, 1938, p. 9).

healthy and unstable propositions under its cover. The Tariff Board itself had at first lent its support to this general conclusion. Hence the development of the industry in the unprotected varieties has been very slow. It has been already stated that during the period 1930-37, while consumption of the protected varieties increased from 49,000 to 55,000 tons that of unprotected varieties rose from 105,000 tons to 153,000 tons. It has, therefore, become highly desirable that the manufacturing activities of some of the over-developed concerns should be diverted into new channels. For instance, India imported, chiefly from Sweden, Germany and Norway, packing and wrapping paper to the extent of 510,000 cwts. valued at Rs. 84 lakhs in 1937-38 and 387,000 cwts. valued at Rs. 67 lakhs in 1938-39. Similarly imports of pasteboard, millboard and cardboard accounted for 541,000 cwts. valued at Rs. 45 lakhs in 1938-39, and 634,000 cwts. valued at Rs. 55 lakhs in 1937-38. But printing paper, always the chief item, accounted for 1,221,000 cwts. at Rs. 1,39 lakhs in 1937-38 and 922,000 cwts. in 1938-39. Both in the high-quality as well as cheap lines, India could not supply her own needs. It is not, of course, possible at present for the Indian paper to compete with the cheapest newsprint made from mechanical pulp. Yet, there is no reason why foreign paper should not be replaced in some of the other sections. The Tariff Board's classification in 1935 amply demonstrated the amount of masquerading which goes on, mainly due to the interchangeability of the material. At present, protection is granted only to those varieties which are in fact produced; thus, there is set up a vicious circle which perpetuates the *status quo*. Protection, for example, is not granted to paper below 10 lbs. demy, because it is not produced and because protection is not granted, therefore, it will never be produced. It is obvious that there is the need here of some more optimism and enterprise on the part of the Government and, above all, active research. There are scores of raw materials available in the country ranging from bamboo itself to jute and hemp waste, sugar-cane bagasse, various grasses, rags and waste paper, which need to be utilised to a greater extent in the future. For, the supplies of mechanical wood pulp are bound to dry

up in the near future. It was estimated in 1929 by one authority[16] that "the estimated stand (of wood) being about 985,000 million cubic feet and the annual drain about 25,700 million cubic feet, at the present rate of consumption, very little of the accessible virgin forests of the world, forty years hence." That means by 1969 or so, the depletion will be complete. In the meantime, it is inevitable that the prices of wood pulp must rise as a result of sheer scarcity. This impending event is being already foreshadowed in the recent high prices for mechanical pulp. When wood supplies are exhausted, grass and bamboo must become important in the years to come. Grass (esparto, or *sabai*, or any other) has an important natural advantage over wood inasmuch as it is annually renewed, while wood takes generations to grow up again. Bamboo, on the other hand, is infinitely superior to both wood as well as grass, in this respect, for it grows at a wild rate which very rapidly exceeds the rate of depletion.[17] What is more, the annual Indian production of bamboo far exceeds the requirements of the Indian paper industry. In 1930, the Forest Department estimated that the annual yield of areas subjected to a regular survey alone,[18] as under:

TABLE II

Area	Estimated annual yield in tons	
I. Burma		
(*a*) Arakan	700,000	
(*b*) Tennaserim	307,000	
(*c*) Tavoy and Mergin	654,000	
II. Angul and Feudatory States of the Lower Mahanadi Basin	100,000	=291,000
III. Papanasam (part)	25,000	
IV. North Kanara	145,700	
V. Rekapalle Forest of Upper Godavari ...	21,000	
Total ...	1,952,700	

16 Quoted by Report, 1931, App. II.
17 Cf. Report, 1938, p. 12.
18 Report, 1931, p. 42.

Owing to the separation of Burma a large quantity of the bamboo resources have been politically, but not economically, segregated. But practically the whole of India can grow bamboo in its many varieties. In 1938, the Tariff Board made a second estimate[19] of the Indian supplies of bamboo at 612,537 tons as against 291,000 in 1931.

TABLE III

Province	Tons
Bengal	100,000
Assam	30,900
Bihar	9,000
Orissa	71,425
Madras	68,667
Bombay	155,000
Central Provinces	27,545
Hyderabad	25,000
Travancore	25,000
Mysore	100,000
Total	612,537

Even at the present rate of bamboo utilisation, not more than 40,000 tons is absorbed in the mills. It is evident, therefore, that nearness to the supplies of bamboo is a factor of great importance to the future growth of the Indian paper industry and that there is a likelihood that India will, besides being self-sufficient in her paper production, come to possess a large exporting trade also in paper and bamboo-pulp. Thus, the prospects for the industry, on a long-run basis, are extremely bright, and although it may appear that, for the time being, the paper industry has not been able to hold its own against its foreign competitors, there is no doubt that continuance and extension of protection along lines suggested above will definitely strengthen the prospects of ultimate success.

[19] Report, 1938, pp. 11-12.

CHAPTER VIII

MATCHES

I

Introductory

The growth of the match industry in India dates from the year 1922 when a revenue duty was imposed on imported matches at so high a level that it afforded substantial protection to the home industry. Up to 1916, the duty was 5 per cent *ad valorem*; in 1921, this was raised to 12 annas per gross, and finally, in 1922, to Rs. 1-8-0 per gross. The duty was intended for revenue, but under its shelter, a number of factories grew up and the manufacture of matches on a commercial scale began to be successful. At first undipped splints and veneers on which no increased duty was leviable were imported from Japan, and made into match-boxes in Bombay and elsewhere. This led to a fall in revenue from the match duties, and therefore the Government, with a view to protecting its revenues, levied an import duty of 0-4-6 per pound on undipped splints and 6 annas per pound on veneers. But by this time the industry had taken such a firm root that enterprising manufacturers obtained and erected machinery for the manufacture of splints, veneers and boxes. Only aspen wood, on which a 15 per cent *ad valorem* duty was leviable, was imported either from Japan or Sweden. With home production rapidly increasing, the imports of matches showed a continuous decline. From 13.68 million gross in 1921-22, imports fell to 6.13 million gross in 1926-27. Before the war, the large Indian market for matches was supplied by Japan, Sweden and several other European countries. In 1912-13, out of the total imports of 15.12 million gross, about half, i.e., 7.29 millions, were supplied by Japan. During the last war, however, Japan consolidated her position in the Indian market and claimed 10.74

million gross out of the total imports of 11.11 million gross in 1918-19. After the war, there soon ensued a struggle for supremacy in the Indian market between Japan and Sweden who was now represented by the Swedish Match Company, a powerful combine of international ramifications. The year 1923-24 found Japan losing much of the ground covered during the war years; for, imports into India from Sweden rose to 5.15 million gross, while those from Japan stood at 5.55 million gross, the proportion of both the countries being thus nearly equal. Simultaneously, the Swedish Match Company started its own factories during 1924-26, thus "jumping over the tariff wall" created by the high import duty of 1922. The Tariff Board estimated the approximate maximum capacity of the factories in India belonging to or under the control of the Company of about 6 million gross a year, while that of the 21 Indian factories, existent in 1928, at 12 million gross a year. By 1926-27, the total market secured by the Swedish Match Company by way of imports was about 50 per cent, while imports from Japan were reduced to about 6 per cent of the total Indian demand. The balance of 44 per cent was supplied jointly by the Swedish Match Company and the Indian manufacturers internally. It will be clear that Japan's virtual elimination and the domination of the Indian market by the Swedish combine meant that the Indian producers had now to face competition principally from the latter both externally as well as internally,—a situation which was unique in the tariff history of India.[1] To safeguard the interests of what might have

[1] *Tariff Board Report on the Match Industry*, 1928, pp. 1-5 and pp. 42-5. It is interesting to note that in 1927, the Swedish Company absorbed by amalgamation some of the Japanese firms thus completing the elimination of Japan, as a rival in India. The tremendous fall in imports between 1915-16 and 1928-29 can be seen from the following figures:—

Imports of Matches

(In million gross)

1915-16	18.3	1925-26	7.9
1921-22	13.7	1926-27	6.1
1922-23	11.3	1927-28	3.5
1923-24	11.2	1928-29	1.5
1924-25	7.2		

eventually developed into a national industry, the Indian manufacturers, with one voice, asked for protection against the designs of the Swedish combine, which was rapidly growing into a menace to the industry from both outside as well as inside.

II

Tariff Board Enquiry, 1926-28

The matter was referred to the Tariff Board in October 1926 and the Board after a searching enquiry produced its report in April 1928. The peculiarity of the problem of protecting the indigenous manufacturers lay in the omnipresence of the Swedish combine, and in that protection was sought by the Indian producers against the combine as a whole. As Sir D. K. Kaul put it, "the Indian Tariff Board, however, was presumably precluded, on grounds of high policy, from discriminating between Indian and foreign enterprise and interests, and hence the very object of the reference was defeated."[2] In discussing the suitability of different measures, the Board scrupulously avoided the question of discrimination between the Indian producers and the Swedish Trust. The Swedish Trust was treated as an Indian manufacturer; as such, naturally it was the largest individual manufacturer and, as the most important manufacturer, it received the greatest amount of consideration. The Board did not, of course, grant any preferential treatment to the Swedish Trust, but the latter was able to get much more than what was required to carry out its nefarious designs in India. It will be noticed that although the Tariff Board enquiry was initiated mainly to find a solution of the predicament in which the Indian enterprise found itself, the Board's recommendations actually helped the very interests against which help was sought. For this, no doubt, the state of the Indian law was largely responsible.

[2] Article on "Match Industry of India," in the *Indian Journal of Economics*, 1930-31, p. 501. See also his evidence before the Tariff Board, —*Evidence*, Vol. I, p. 578.

As the Board itself pointed out, "In our fiscal law, however, there is no express provision which recognises the method of penalising *unfair* competition except where such competition arises from the payment of bounties."[3] The essential nature of the Swedish Trust, however, was not properly appreciated by the Board, who fumbled with their facts and figures rather awkwardly in an attempt to be fair to the foreign concern. They did not pay adequate attention to the history, policy and methodology of the Trust and somewhat lightly brushed aside the fears of the Indian manufacturers.

The Tariff Board applied the triple formula and came to the following conclusions. As regards the first condition they stated that the Indian industry enjoyed important advantages in the existence of cheap and efficient labour and the possession of a large home market. The processes of manufacture were simple and easily understood by the Indian labourers. Both in factories where the processes were still largely carried out by hand and in those in which the most modern machinery was employed, the Board found that the Indian labour had achieved great improvements in efficiency during a comparatively short period. Bearing in mind the relatively low scale of wages as compared with European countries the labour charges in a well-organised Indian factory formed, according to the Board, a smaller item in the cost of manufacturing matches than was the case in other countries. As regards the market, they stated that it was self-evident that in a country of the size of India, the demand must be both large and continuous. They estimated that the Indian demand on the average, at the time of reporting, amounted to about 17 million gross per annum. The world's total annual consumption of matches is estimated at about 150 million gross boxes. It is clear, therefore, that not only was the Indian market one of the biggest in the world but that it afforded an enormous scope for an indigenous match industry. As regards raw materials, the Board's conclusion was that a

[3] *Report*, 1928, p. 48.

large number of species of trees in Indian forests were suitable for the manufacture of splints or match-boxes, and that it was probable that the supply of match wood from India and Burma would on the average be sufficient for the manufacture of 8 million gross of matches, or nearly half of the total Indian demand. They also stated that it was possible to augment the supply of wood by undertaking plantation. However, it is noteworthy that the Board stated in clear language that "it is a peculiarity of the match industry that no country in which matches are made is self-supporting in regard to all or most of the raw materials required."[4] Consequently, when aspen, which was not grown in India, was used for match manufacture, if the claim for protection was to be established, it was, in their view, essential that the industry should fulfil the third condition, viz., that it would eventually be able to stand without protection. Coming, therefore, to the second and third conditions, the Board observed that "a great expansion in the industry has taken place, while costs have also fallen...; but the need for protection arises entirely from two causes, viz., that the Swedish Match Company are importing matches at a price below the economic level and that there exists at present a very marked prejudice against Indian matches."[5] Until, therefore, these two conditions were removed, the need for protection would continue. Finally the availability of cheap and equally efficient labour in India and the consequent reduction in capital costs, and the natural advantage of the Indian industry in respect of freights and other costs of transport, gave India a distinct superiority in the production of matches, and strengthened the hope that "India will eventually be in a position to face the foreign competition without protection, even if all raw materials are imported."[6] Thus, the Board concluded that the Indian industry satisfied all the three conditions in a substantial degree and that, therefore, the claim to protection had been established.

In fixing the protective duty on matches, the Tariff Board found that the familiar method of comparing the

[4] *Ibid.*, p. 58. [5] *Ibid.*, p. 57. [6] *Ibid.*, p. 1.

fair selling price with the import price would not serve the purpose of protection. They computed that the "theoretical" measure of protection would amount to 9 annas per gross, being the difference, in round figure, between the fair selling price (Rs. 1-4-1) of half-size matches with aspen splints and Indian wood boxes, and the comparable c. i. f. landed price ex-duty (11 annas 10 pies) of imported matches of the same size per gross. Certain important features which differentiated the match industry from others had, however, to be taken into account in fixing the actual duty. The price of matches varied considerably according as they were sold wholesale by the gross, or retail by the dozen or less, as also according to the quality of matches sold. It was agreed that if the Indian industry were to hold its own against foreign competition, there must be some allowance for quality and difference between the prices of Indian and foreign matches. Further, though the effect of the duty was directly reflected in the wholesale price, it did not follow that any change in the duty would necessarily affect the retail price. As regards retail sale, though in towns, for domestic use, the unit of retail sale was a dozen of boxes, for the vast majority of consumers in the rural areas, the unit was usually the box. In a memorandum[7] on the match trade in India, Mr. Ivar Kreuger, the Chairman of the Swedish Match Company remarked: "In many instances, the monetary system of a country is decisive for the retail price which the public has to pay. For example, in the United States the retail price of matches will be at least 1 cent a box and in Great Britain at least 1 penny a box independently of the price charged by the manufacturer." In India, the retail price has generally been 1 pice per box. Owing to this, there must necessarily remain a difference of at least one pice per box between the price of the Indian matches and that of foreign matches. This difference was not possible except with a duty of Rs. 1-8-0 per gross, which was exactly equal to the existing revenue duty. The Board, therefore, recommended that the existing revenue duty of Rs. 1-8-0 should be con-

[7] Memorandum published as Appendix C of the *Report*, pp. 130-2.

verted into a protective duty. The Board further recommended that no definite period should be fixed for protection, because, with the possible elimination of imports, in a few years' time, the protective duty would cease to have any significance and, moreover, the programme of plantation which they had recommended in order to ensure a sufficient supply of wood to the Indian industry was expected to take at least 20 years. However, they suggested that the "progress of the industry should be carefully watched and a fresh enquiry ordered when circumstances appear to warrant such action."[8]

In pursuance of these recommendations, the Match Industry Protection Act, 1928, was passed which retained the existing rate of Rs. 1-8-0 as a protective duty. It also converted the then existing import duties on undipped splints and veneers into protective duties to make the duty on matches effective. The duties were further enhanced all round by 25 per cent under the provisions of the surcharge levied in the Supplementary Budget of 1931. In 1934, again, under the Matches Excise Duty Act, an excise duty was imposed on Indian matches and the rates of import duty were revised so as to comprise rates maintaining the existing measure of protection with modifications for the equivalent of the new excise duty. The rates of excise duty on matches made in British India and sold in boxes or booklets containing on an average not more than eighty were fixed as follows : (1) Re. 1 per gross of boxes or booklets if the average number was forty or less; (ii) Rs. 1-8-0 per gross of boxes or booklets if the average number was more than forty but less than 60, and (iii) Rs. 2 per gross of boxes or booklets if the average number was more than 60. The rate of excise duty on all other matches was fixed at 4 annas for every 1440 matches or fraction thereof. The rates of customs duties were revised as follows: (1) The excise duty plus ten annas

[8] Cf. *Report*, pp. 60-73. It should be noted that the Board also visualised a further enquiry in the event of a situation arising in which "the Swedish Match Company attempts to capture the whole of the Indian market and the danger is so real and imminent as to merge all thought of private interest in that of general safety." (Ibid., p. 91).

per gross of boxes or booklets if the average number was not more than 40. (2) The excise duty plus 15 annas if the average number was more than 40 but not more than 60; (3) The excise duty plus Rs. 1-4-0 if the average number was more than 60 but not more than 80; (4) The excise duty plus one pie for every 48 matches or fraction thereof, for all other matches. These duties were exempted from the surcharge of 25 per cent imposed in September 1931.[9] The excise duty was justified by the Government on the grounds, firstly, that it was necessary to enable them to recoup their losses caused by granting a half share in the jute export duty to the jute-growing Provinces of Bengal, Assam and Bihar, and, secondly, that the Government had to find an alternative source of revenue to make up for the losses caused by the cessation of imports of matches. The excise duty has naturally caused much discontent among the other Provinces, which feel that they are being penalised for having managed their finances better than Bengal. Moreover, the minimum duty of Re. 1 per gross of boxes containing not more than 40 sticks has led to another consequence, involving an advantage to foreign manufacturers. Indian manufacturers hitherto sold two half-size boxes for a pice; but the duty being the same now, the purchaser, whether he buys half-size or full-size matches, has to pay the price of one pice, and the full-size boxes are being sold in larger number than half-size boxes, which the Indian factories principally manufactured.

III

The Swedish Match Octopus

That the protective scheme adopted from 1928 onwards has, on the whole, led to an enormous development of the match industry in India is beyond dispute. The following figures indicate the extent to which imports have fallen and to which India has become self-supporting in the manufacture of matches.

[9] B. N. Adarkar, *History of the Indian Tariff*, p. 57.

TABLE I

Imports of Matches into India

	Pre-war average	War average	Post-war average	1936-37	1937-38	1938-39
Quantity (in 000 gross)	14,560	14,645	12,725	103	1,100	1,263
Value (in Rs. 000)	88,21	1,53,31	1,76,68	14,05	20,44	23,52

However, this growth of the match industry is the growth mainly of one single manufacturing concern, viz., the Swedish Match Company and its constituents in India. As stated earlier in this Chapter, the very *raison d'être* of protection was nullified by the fact that the protection helped not Indian interests but a foreign combine of world-wide influence and power. Subsequent to the recommendations of the Tariff Board, the Swedish Trust, which had solidly entrenched itself both in and outside the country, found the field clear for its further activities. It has undertaken the following programme for bringing the Indian match industry in its vicious octopus-like grip:

(*i*) The Western India Match Company (only a different name for the Swedish Company) has been nominally refloated as an Indian public limited company with rupee capital. The capital is largely Swedish and control is entirely Swedish too, except that the Company has accepted a couple of Indian directors on its board.

(*ii*) The Swedish Company has strengthened its position by expanding its output capacity with great strides. The Company had in 1928 only four factories in India, but now it owns eleven factories in addition to the Indian factories which it controls indirectly by holding a large proportion of the capital.

(*iii*) Negotiations have been and are being carried on, under duress of a ruthless rates war, with Indian

factories with a view to control and restrict their activity.

(*iv*) The Company has controlled the supply of Swedish and German match machinery through its subsidiary, viz., the Match Manufacturing Supply Company.[10]

(*v*) A rates war, which was initiated even before the Tariff Board enquiry of 1926-28 has been steadily ruining the Indian factories. The under-cutting of prices has been such as to leave practically no margin of profit to Indian manufacturers. Match boxes containing sixty sticks have been sold at Rs. 2-1-0 per gross; if the excise duty of Rs. 1-8-0 per gross is deducted it can be seen that the actual difference is less than the normal cost of production. In 1928 the Swedish Company stated that its "actuals" for fair selling price in 1927 were between Rs. 1-5-0 and Rs. 1-6-0 per gross. The Board estimated that the fair selling price in 1928 for Indian matches would amount to Rs. 1-4-0 per gross, while they hoped that the "future" selling price would be in the neighbourhood of Rs. 1-2-6 or so. When, therefore, matches are sold so as to leave a margin of 9 annas per gross only, there is no doubt room for suspicion.

That the Swedish Match Company is not exactly a charitable institution and that it has always and consistently undersold the Indian factories was admitted by the Tariff Board itself in 1928. Then it was also a question of matches imported from Sweden. In 1928, the price of Swedish matches in Bombay was Rs. 2-3-0 ex-godown. The Tariff Board calculated that after deducting the import duty of Rs. 1-8-0 and incidental charges, such as London House commission, importers' commission, landing and clearing charges and transport to godown, amounting to 2 annas and 4 pies, this left a nett c.i.f. price of 8 annas 7 pies. Deducting

[10] For the alleged unfair practices of this company, cf. Tariff Board, *Evidence*, Vol. I, pp. 25-27.

from this sea freights, insurance and other charges, amounting to 2 annas 1 pie, a final price of 6 annas 6 pies f.o.r. was available in Sweden. The Board opined that "competition based on a price such as that of 6 annas 6 pies f.o.r. works may be regarded under the law of some countries as 'unfair' and penalised by the imposition of what are usually described as 'anti-dumping' duties." The whole history of the Swedish Trust is testimony to the ruthlessness of their methods. This matter was brought to the notice of the Swedish Company in the course of the evidence by the Board. Mr. Kreuger, in his Memorandum, stated as follows: "It is generally recognised that for an industrial enterprise to carry on a regular dumping policy it is necessary to have a large home market protected by high tariffs so that the profits obtained from the home market can compensate for the losses made on the export business. This condition is not fulfilled for the Swedish Match Company, for which the home market only amounts to a few per cent of the total trade, and it would, therefore, be absolutely impossible for the Company to adopt dumping as a general policy." This argument was reiterated by Mr. Schele, the general manager of the Company for India, but when it was put to him by the Board that the "home market" of the Swedish Company was not confined to Sweden only, but that it had got the whole world as its home and sheltered markets in many countries, he naturally fumbled.[11] The fact has been that this Match Colossus, standing astride over both internal as well as external markets, has been in a position to defy all regulations. In this connection, the following passage from the *Evidence* (Vol. III, p. 254) is interesting:

President—That is to say, the position would be this. If the duty of Rs. 1-8-0 were removed, you would naturally manufacture less in the country and import more.

Mr. Schele—Yes.

President—If on the other hand it were retained, you would manufacture more matches in the country.

Mr. Schele—That is the logical conclusion.

[11] See *Evidence*, Vol. III, pp. 253-4.

It is unfortunate, however, that the Board, even after realising this elusive character of the Swedish Trust, allowed things to take their own course and did not recommend stringent measures to prevent the Trust in advance from repeating its exploits in India as elsewhere. Many allegations have been made against the Trust apart from the rates war pursued by it. For example, complaints have been made from time to time that rebates and discounts are offered by the Western India Match Company and the Calcutta Match Works to the dealers and vendors of matches, if they undertake not to sell matches manufactured by any other factory. Moreover, it is alleged, when a further reduction in price is affected, the reduction is calculated on the stock already sold and at times refunds are given to the dealers only if they undertake to buy more cases. This procedure forces the match dealers to confine their orders only to these concerns. In a recent circular issued by the Western India Match Company, prizes were alleged to have been offered to match dealers: thus, for example, any person buying 25 gross of a particular brand, was deemed to have secured half a point and awarded a silk *chaddar*. Similarly, a person buying 500 gross, *i.e.* 10 cases, would be entitled to 13 *chaddars* and so on.[12] As regards active propaganda against Indian matches, the Tariff Board observed in their Report:

> "At the same time, we have seen advertisements of the Swedish Match Company which in some cases explicitly, in others by implication, condemn the products of all Indian match factories without reserve. We must confess that it strikes us as curious that a foreign firm should repay the hospitality offered to it by India by belittling the quality of Indian manufactures as a class or indeed that the Swedish Match Company considered that its interests were best served by methods of advertisement which could not but stir up animosity."[13]

The Tariff Board in its very comprehensive analysis of the Swedish Company's history and methodology,[14] stated that the object of the Company was to secure a position in

[12] Cf. *Modern Review*, August 1938, article on "The Tragedy of the Indian Match Industry" by 'X', p. 266.

[13] *Report*, p. 85.

[14] *Ibid.*, pp. 82-95.

every possible market of the world, which would enable it eventually to regulate prices; that the acquisition even of the major part of the business in a market will not enable it to achieve this object; and that either a complete monopoly must be obtained or a majority interest in every important unit constituting the industry. It may be added that by 1928, it had already secured this power in respect of 65 to 70 per cent of the world's market. The Company's methodology is best illustrated by a statement made by the President of the Belgian match manufacturers before the special Committee appointed by the Belgian Government prior to the Company's complete absorption of the Belgian market:

"The Cartel (i.e. the Swedish Match Company) makes more money by matches manufactured in Sweden and in other countries by it than on those manufactured in Belgium. It is, therefore, to its interest to close down in Belgium as many factories as possible. The price war which the Cartel is capable of carrying on during years in all countries to which Belgium can hope to export matches is very formidable. It is a matter of public notoriety that last year a Belgian factory was compelled to go into liquidation on account of this price war; the assets realized in the liquidation were not enough to pay 10 per cent to the shareholders."[15]

As a result of such a programme of cut-throat competition in India within the space of a decade, not less than 25 to 30 Indian factories have had to close down. About 17 factories have been closed in Bengal alone. The following figures will give an idea as to the growth of the Swedish Company's production in recent years:

[15] Quoted by the Tariff Board, *Report*, p. 89.

TABLE II

Swedish Company's Output

(in cases of 50 gross)

Year	Swedish Co.	Indian Factories	Percentage	
			Swedish	Indian
1935	50,860	61,311	45%	55%
1936	39,113	38,699	50½%	49½%
1937	58,778	28,888	67%	33%

In his evidence before the Board in 1928, the General Manager of the Swedish Match Company for India, Mr. Schele, had told the Board that the aim of his Company was to capture 50 per cent of the Indian market.[16] But it will appear that the Company is steadily making inroads upon the Indian factories' share of the market, which is bound ultimately to lead to the establishment of an unchallenged monopoly of the Company in the country. If this happens, India will be only one of the many countries of the world which have been conquered by the Swedish Trust; but one hesitates to think of what would be left of the industrial and tariff policy of the Government of India, if an industry of great national importance is permitted to be entirely dominated by a single foreign concern. The Tariff Board admitted that the resources of the Swedish Company[17] were

[16] *Evidence*, Vol. III, pp. 246-8.

[17] An idea of the tremendous financial strength of the Company can be had from the facts that up till 1930, the Company had lent not less than 253 million dollars to the Governments of thirteen countries in exchange for concessions of monopolies. As Mr. Deck remarks (in an article on "The Match Stick Colossus" in the *Foreign Affairs*, October 1930, p. 153), "these huge transactions have naturally somewhat

sufficient, if it was so desired, to crush for a time all competition from Indian firms and capture for itself the whole of the Indian market.

In spite of such glaring evidence, the Tariff Board appear to have persuaded themselves that the Swedish Company was not an unmixed evil. In the first place, they would not admit that the Company's activities were or were likely to be harmful either to the interests of the Indian match industry or of the national economy. "While" they said "incidents... have not unnaturally given rise to suspicion among Indian manufacturers as to the intentions of the Swedish Match Company, we have sought in vain for any facts to substantiate the general charge brought against the Company, namely that it has caused serious injury to the Indian industry in an attempt to eliminate all competition."[18] The Board admitted that the Company had carried on "unfair competition" in respect of *imported* half-size matches. But they naively announced that the scheme of protection proposed by them would put an end to unfair competition in so far as it arose from the company's *imported* matches, omitting to say how the scheme would put an end to the *internal* competition of an obviously unfair type. Nay, they went even further and asserted that in several respects, "the Indian manufacturer occupies a position of advantage and we see no reason why he should not compete effectively with the Swedish factories established in India, provided that he directs more attention than has been the case in the past to the quality and uniformity of his output."[19] In brief, they promised that if the Indian manufacturer proved himself to be a good boy, he would escape the flogging that he so richly deserved otherwise! The Board paid little or no attention to the financial

altered the character of the Swedish Match Company; it is no longer a purely industrial concern, but a sort of banking or investment enterprise." The "match colossus" owns between 150 and 160 factories in 35 or 40 different countries, shares in the profits of fourteen State monopolies, and virtually controls, through its own constituents and subsidiaries, more than 70 per cent of the world's production of matches.

[18] *Report*, p. 85.

[19] *Ibid.*, p. 86.

stamina of the puny Indian manufacturer and the chances of his success against an international combine which had worsted a hundred and one more powerful rivals! What is still more interesting, they declared that so far as the interest of the consumer was concerned, there was no ground for serious apprehension, even if the Company itself established a monopoly. The retail price would not rise above one pice per box and, therefore, the consumer will not be injured; only the wholesale price might rise, if at all, thus depriving the middlemen of their profits.[20] Finally, the Board opined that the existence of the Company in India was a necessity as it would set a high standard of efficiency for the Indian factories and also benefit the country by providing the fruits of research, experience and training to the Indians.

IV

Conclusion

In criticising the rather optimistic view of the Tariff Board, it is not my intention to suggest that the Board should have provided a ready-made scheme of controlling and restricting the activities of the Swedish Trust. That would have been clearly beyond the terms of reference as well as the general powers of the Board, who are evidently a tariff-making body and, therefore, could not lay down the industrial law regarding internal "unfair competition." But, at the same time, one cannot understand how, in view of the antecedents of the Swedish Company, they could so easily gloss over the Company's objectionable practices and say that *no action was necessary*. The Board's facile optimism has strengthened the hands of a bureaucratic Government, already apathetic, if not antipathetic, in its attitude towards Indian industrial development. During the past few years,

[20] *Ibid.*, p. 92. It is well known that prior to protection and even later for some years the retail price was 2 boxes per pice. Eventual withdrawal of protection should have this end in view. It is doubtful whether this end would ever be achieved if a private monopoly were established in India.

Indian match manufacturers as well as Indian Chambers of Commerce have been making representations to the Commerce Department requesting the institution of an enquiry into the conditions of the match trade, such as was visualised by the Tariff Board itself. But the Government has remained supremely indifferent to the woes of the Indian match manufacturers, who are, in most cases, small capitalists. On the other side, powerful interests of international finance are at stake. There is no question of any provisions of the Government of India Act, 1935, regarding commercial discrimination preventing legislation to stop the strangling of the Indian match industry that is going on; and it is not possible to foretell how long the Government will wait. Possibly, they might awaken to their responsibilities in the matter when the last Indian factory had collapsed and the country was faced with the *fait accompli* of a complete match monopoly in India. But then it will not be possible to undertake any of the measures discussed in detail by the Tariff Board, such as a central selling organisation, etc.,[21] and it will be almost a case of "after the fair." In view of the foregoing remarks, it is clear that the matter is not one essentially meant to be dealt with by the Tariff Board at all. The usual logic and method of the Board are bound to be unequal to the task of effectively dealing with the question of controlling unfair competition and cut-throat trade practices. The best machinery for thrashing out the issue would be a special Committee with the widest possible terms of reference to enquire into the condition of the industry and to suggest suitable alterations in our industrial law to cope with the situation. A new law, framed somewhat on the lines of the American law relating to unfair trade practices, and requiring particularly Indianisation of capital-ownership and control, is urgently needed. The whole procedure of the Tariff Board and the scheme of protection, which has emerged therefrom, have proved futile in solving the difficulties of the Indian match producer. The case of the match industry has become the true touchstone of the Government's sincerity in regard to their industrial and commercial policy.

[21] *Report*, pp. 90-95, and App. A, p. 123.

CHAPTER IX

SALT

I

Introductory

India's salt production now averages about $1\frac{1}{2}$ million tons per annum but this is insufficient for the normal requirements of the population. The balance of 500,000 tons is, therefore, obtained from other countries. Apart from the quantities required for human consumption, salt is also needed by various industries. An American authority has calculated recently that the people of the United States, where the output is now over 8 million tons per annum, employ about 16 times as much salt per person as in China, the great difference being due to the chemical uses of salt.[1] The future development of the salt industry in India will, therefore, largely depend upon the industrial uses of the commodity. While other parts of India produce salt in quantities adequate to meet the local demand, the eastern Provinces of Bengal, Bihar, Orissa and Assam are unable, for climatic reasons, to produce sufficient salt for their own use. Coastal imports from other parts of India not being available, these Provinces had for half a century to eat mostly salt from Liverpool, Hamburg, Aden, Djibouti, and Spain. The danger implicit in this dependence on foreign sources for a prime necessity of life was brought home in the last war, when the cessation of foreign imports pushed up prices to Rs. 274 per hundred maunds and the eastern Provinces had to suffer from a salt famine. The proposal was then mooted for the first time to make India self-sufficient, but owing to the slow movement of the "red tape," it was not until 1927 that an enquiry

[1] Cf. Brown, *India's Mineral Wealth*, p. 233.

was instituted by the Government through Mr. D. N. Strathie of the Salt Department of Madras. Mr. Strathie's main conclusion was that India could not manufacture her own salt,—a conclusion which was immediately negatived by the arrival in the Calcutta market in that year of consignments of crushed salt from Okha and Karachi. The Taxation Enquiry Committee (1924-25) had recommended that with a view to self-sufficiency, the matter of salt protection should be referred to the Tariff Board. However, the Central Board of Revenue stated that there was no *prima facie* case for such reference for the reasons, firstly, that there was insufficient evidence to show that enough white crushed salt could be produced to supply the needs of Bengal; and, secondly, that on general economic grounds, it was neither necessary nor desirable to protect the salt industry. The question was hotly debated in the Legislative Assembly in March 1929 when a cut motion was passed recommending that the matter should be referred to the Tariff Board. Accordingly, the Government reconsidered the position and referred the case of salt to the Tariff Board in 1929, asking them to report "whether it is desirable in the national interests that steps should be taken to encourage the production of salt in India suitable for consumption in those markets which are at present largely supplied from abroad and, if so, what measures they recommend."[2]

II

Tariff Board Enquiry (1929-30)

The Tariff Board, reporting in 1930, pointed out that given adequate protection the salt industry could be fully developed to meet India's requirements. The Board expressed the view that the whole demand of the Bengal market could be met by India and Aden (which was at that time administered as part of the Bombay Presidency), if the sources of sea-borne salt of Khewra, Sewbee and Pachbhadra

[2] *Report of the Tariff Board on Salt*, 1930, p. 3.

were properly exploited. At the time of the enquiry, the position as regards imports and local production stood as follows:

TABLE I

Average Annual Production and Imports of Salt

Period	Production Tons (000)	Imports Tons (000)	Provincial shares of production				Rock salt
			Bombay	Madras	North India	Burma	
			%	%	%	%	%
1898-1903 ...	979	433	37.6	30.4	29.7	2.2	11.2
1904-1908 ...	1,167	484	36.9	33.3	27.14	2.2	10.3
1909-1913 ...	1,301	552	37.0	31.0	29.0	2.1	11.5
1914-1918 ...	1,395	443	34.9	30.3	31.2	2.8	12.7
1919-1923 ...	1,530	517	35.0	31.4	30.2	3.2	11.6
1924-1928 ...	1,343	580	34.0	33.0	31.3	1.6	12.1

As stated already, imports were largely meant for the eastern Provinces of Bengal, Bihar, Orissa and Assam. The imports largely came from the United Kingdom, Germany, Aden, Arabia, Egypt, Spain and Italian East Africa. In 1898-1903, the shares of these countries were U.K., 56.1%; Germany, 13.1%; Aden, 11.4%; Arabia, 9.9%; Egypt, 6.5%; and Spain and Italian East Africa *nil.* During 1929-32, however, the respective shares were 7.7%, 10.5%, 42.0%, *nil* 12.9%, 7.6% and 16.3%, which showed principally a great fall in the U.K. percentage and a rise in Aden's percentage.

The Board made three specific recommendations for the consideration of the Government:

(*i*) Stabilisation of prices at Calcutta over a sufficiently long period.

This recommendation had a double purpose in view. On the one hand, as a result of stabilised prices, the Indian producers (who, in this context, also included the producers

of Aden) would have an assured basis on which to develop their sources of production and to continue manufacture without fear of cut-throat competition from foreign countries. On the other hand, the consumers would be assured, particularly in Bengal, of the steady supply of a necessity of life at a fair price, and be protected against the danger of exploitation by "rings" and profiteers. In this connection, the Board suggested the setting up of two standards of quality: the first to correspond to Liverpool or Hamburg, the second to comprise all kinds of solar salt. The standard price suggested for the former grade was Rs. 74 for 100 maunds ex-ship and for the latter grade, Rs. 66.

(*ii*) The establishment of a Marketing Board in Calcutta having a constitution similar to that of a public utility company.

The Board recommended that the Government should assume control of imports through this Marketing Board which would purchase indigenous produce at the standard rates, provided the salt was of the specified quality. The Marketing Board would purchase the entire output of indigenous salt both from the Government salt works as well as from private manufacturers working on licences. The aim of this Board was to maintain the stability of prices at a level which would be fair to the consumer and which at the same time would allow a sufficient margin of profit to the indigenous producer.

(*iii*) The development of the *inland* sources such as Khewra (in the Punjab), Lake Sambhar (in Rajputana) and other places.

The Tariff Board opined that the best way of ensuring a steady supply of salt in the Calcutta market was to promote the marketing of rail-borne salt in India, because the threat of shortage in time of war would continue if Aden, Karachi and Okha were to be the principal sources. Towards this end, they suggested the development of the inland sources of salt production, such as the rock-salt deposits of the Punjab and the lake-salt of Rajputana. They also recommended that the Government should undertake a fuller investigation of the possibilities of the North Indian sources.

III

Later Developments

In pursuance of the Tariff Board's suggestion, the Government appointed the Salt Survey Committee to investigate more fully the potentialities of the North Indian sources of salt. Finally, the Legislative Assembly appointed a Salt Industry Committee to examine the proposals of the Tariff Board and the Salt Survey Committee. In March 1931, the Salt Industry Committee recommended: (*i*) that an additional duty of 4 annas 8 pies per maund be imposed on all salt Indian or foreign imported by sea into British India; (*ii*) that the Executive should have power to increase the duty from time to time so as to cancel the effects of reduction of the price of imported salt;[3] (*iii*) that a rebate of the additional duty should be granted to any importer on his undertaking to deliver a stipulated quantity to the Government at any time at the fair selling price fixed by the Marketing Board. Accordingly, under the Salt Additional Import Duty Act, 1931, an additional duty of 4½ annas per maund (apart from the countervailing revenue duty of Rs. 1-4-0 per maund corresponding to the excise duty of that amount) was imposed on all salt (except that from Aden) imported into any port in British India subject to certain conditions in the case of salt imported by sea from any place in India. The life of the protective duty was limited to one year only. This limitation of the duty was an unnecessarily cautious step. However, in spite of this defect in the protective duty, the effect of the duty was rapidly felt and the indigenous industry showed a promising growth. When the position was again investigated by the Salt Industry Committee in 1932, they had no hesitation in stating that the protection granted had been remarkably successful in achieving the particular object of stabilising the price of white crushed salt at a level which encouraged the substitu-

[3] It may be noted that the price of the Red Sea salt, which was about Rs. 53 per 100 maunds at the time the Tariff Board reported, had gone down to about Rs. 36 per 100 maunds in 1931.

tion of Indian for foreign salt. At the same time, the Committee observed that the consumer had not to bear a burden larger than necessary to secure that object. However, they recommended the extension of the additional duty for another period of 12 months only, inasmuch as, in their view, it was necessary to examine further the position as regards Aden whose import during 1931-32 had gone up by leaps and bounds, and out of all proportion to the increase in output in India proper. The Committee, therefore, expressed the view that the Government should consider the introduction of some plan by which Aden would be prevented from capturing the whole of the available Indian market. They considered that this aim would be achieved by allotting quotas of the Indian requirements of fine crushed salt to the various importing agencies, either as an alternative to, or in combination with, a differential import duty on Aden Salt. However, they suggested that prior to the adoption of such a plan, a conference of all the interests concerned should be convened to enable them to place their views before the Government.[4]

In May 1932, in pursuance of the above recommendations, a Conference of salt manufacturers was called in Simla. The Conference, however, failed to bring about agreement between the Indian and Aden groups. The Indian producers stated that, given the continuance of protection over an adequate period, they could between themselves more than meet the requirements of the Calcutta market, even without the help of Aden, and that, in view of this fact, they had no difficulty in distributing quotas amongst themselves. To this, of course, the Aden interests would not agree. Then ensued a fierce rate-cutting war, in which Italy with her East African salt also participated. During 1931-32, foreign salt imports had been on the decline, but in 1932-33, owing to Italian dumping, prices came down to Rs. 40 per 100 maunds ex-duty. The effects of the dumping were aggravated by the reduction of the import duty to 2 annas 6 pies per maund in 1933, and the industry was in the danger of complete disintegration. Over-production was feared and an attempt

[4] *Indian Finance Annual*, 1939, p. 290.

was made late in 1932 to form a Marketing Board for eliminating internal competition and stabilising prices. Nothing came out of it, and the rate war continued. Experience, however, induced a more reasonable attitude, and at last in 1935 a Salt Marketing Board was formed composed of the Indian and Aden producers supplying the Calcutta market. Its aim has been to eliminate foreign imports, and to regulate Indian imports so that normal seasonal demand may be satisfied at the fixed prices. An elaborate organisation in the form of a Control Committee to collect statistics, to study the fluctuating conditions of the trade, to co-ordinate supply and to fix quotas. On the basis of approximate total annual consumption in the Calcutta market, the following quotas were assigned to different salt-producing centres in 1936:

TABLE II

Salt Quotas of the Bengal Market

Centre	Maunds	Percentage
Aden	266,000	49.91
Bombay	20,000	3.74
Okha	65,000	12.20
Karachi	124,000	23.27
Porbunder	33,000	6.19
Morvi	25,000	4.69
Total ...	533,000	100.00.

With the increasing stability of the salt trade in Bengal, changes were effected in the tariff from time to time. In 1933, the protective duty was reduced to 2½ annas per maund. In 1936, it was further reduced to 1½ annas per maund. The additional protective duty has been resented by the representatives of Bengal on the ground that it has, in effect, helped the producers of Aden at the expense of the consumers of Bengal. The criticism has been somewhat met by the limitation of the quota of Aden to about half the consumption of the Bengal market. In his budget speech of 1935, the

Finance Member admitted the unfairness of the situation in which Aden (which, incidentally, was shortly going to be separated from India under the Constitution Act of 1935) was helped at the expense of Bengal, but the duty was extended at the reduced rate up to 1938 out of consideration for vested interests. In March 1938, the duty was allowed to expire. Between February and May 1938, large imports were made in anticipation of a change on the tariff and consequently there was a glut. In May 1938, a private tribunal to which the industry referred its case made its award by which Aden's position as the principal supplier was safeguarded, but a quota of 20,000 tons was reserved for the coastal manufacturers of Bengal and Orissa.

In recent years, the most important development, which has been further aided by the requirements of war, has been the rise in the industrial consumption of salt. This holds out a promise of great value for the future development of the industry. It may be noted here that the consumption of about 2.1 million tons for a population of about 400 millions, as compared to the consumption of 8 million tons for a population of only 120 millions in the United States, makes a very poor comparison and indicates that the very low *per-capita* demand is due to absence of proper industrial development. Salt is one of the most important raw materials in chemical manufactures and is the starting point for the preparation of hydrochloric acid, sodium carbonate, sodium sulphate and a vast array of other substances (including glass) which they, in their turn, yield. If India is to progress industrially and particularly in respect of the key industry of chemicals, it is clear that her salt resources must be fully developed and exploited. India, at present, derives her salt from three sources: (1) the sea, (2) sub-soil brines and the waters of lakes of enclosed drainage, and (3) beds of rock salt.[5] Most of the sea salt is manufactured in Bombay and Madras; the lake salt is produced largely in Rajputana, particularly from Lake Sambhar (which alone contributes

[5] For a detailed description of these sources, cf. Brown, *op. cit.*, p. 233 ff.

about a quarter of a million tons per annum) and at Pachbhadra; rock salt, representing about 12 per cent of the total Indian production, comes mainly from the mines of the Punjab Salt Range, from Kohat in the N.W.F. Province and from the Mandi State. Owing to the restrictions of the Salt Departments, such as the licensing system, which has been necessitated by a very inequitable excise duty (condemned by any canon of public finance), salt production as well as consumption are at low levels in India. Although there is an exemption from the duty (both of import as well as excise), made in accordance with Departmental rules, in the case of salt used in any process of manufacture, there can be no encouragement to the industrial utilisation unless there are large surpluses of cheap Indian salt which will make such utilisation economically feasible. In recent years, imports of foreign salt (including Aden salt) have been on the decline, but the indigenous salt production does not show much expansion, as may be seen from the figures below:

TABLE III

Imports and Production of Salt (1930-39)

(In tons 000)

Year	Total imports	Production
1930	688.6	1711.3
1931	528.6	1839.4
1932	552.7	1610.9
1933	396.8	1712.4
1934	392.2	1963.7
1935	394.0	1948.2
1936	300.0	1347.0*
1937	339.0	1492.0
1938	332.0	1538.0
1939	312.0	1559.0

* Figures exclude Burma from 1937.

It does not follow from the above that protection of the salt industry would assist its future development. No doubt, owing to the war, imports of salt have fallen further, but their revival on a large scale after the war does not appear

to be likely. In levying the protective duty, however, the aim of the Government has been to make India self-supporting in regard to satisfaction of the consumption demand of Bengal and the neighbouring Provinces. The idea of encouraging the industrial uses of salt has not so far been adopted. In view of the cessation of foreign imports of salt, the salt industry has reached now a stage of stability if not stagnancy. Its future progress depends upon general industrial development in the country. In particular, the rise of a great chemical industry in India is highly essential to a comprehensive progress of the salt industry. Common sense suggests, therefore, that *it is the chemical industry which needs to be protected and developed*, so that the raw material, salt, will get the indirect advantage of the protection.

CHAPTER X

MINOR PROTECTED INDUSTRIES

In this Chapter, we shall discuss the protective measures taken to safeguard some of the smaller industries. The principal industries in this group are: (1) Magnesium Chloride, (2) Plywood and Tea Chest, and (3) Gold Thread. It will be convenient here to consider also the cases of the smaller industries protected temporarily under the Safeguarding of Industries Act, 1933, and of two agricultural commodities, viz., wheat and rice.

I

Magnesium Chloride

The case of the magnesium chloride industry is an extremely interesting instance of the fallacious nature of the formula of Discriminating Protection which has been adopted as the corner-stone of India's fiscal policy. The industry has exploded the smug respectability of that formula and fought its way to success in spite of the initial apathy of both the Tariff Board as well as the Government. What is more, its case is of further interest in view of the fact that magnesium chloride is the only chemical which has received a normal dose of protection, whereas the other chemicals which had received temporary protection under the Heavy Chemical Industry Act, 1931, were exposed to the full blast of foreign competition from 1933 onwards.[1]

Magnesium Chloride, in India, is a by-product of salt manufacture, as it is of potash in Germany, which is the

[1] See *infra*, Chapter XI, section on "Heavy Chemicals".

world's biggest producer.[2] The chief demand for magnesium chloride is from the textile industry for use in the sizing of yarn. It is also used for admixture in oxy-chloride cement for flooring purposes and, to a much smaller extent, in the grinding of machinery parts in rice mills. In 1934, the Department of Industries of the Bombay Government conducted experiments in its utilisation for the sizing of yarn in the handloom industry and showed that its use is more economical than the other sizing mixtures at present employed.[3] The raw material for the manufacture of magnesium chloride is the residual mother liquor known as "bitterns" discharged from the salt beds after separation of the sodium chloride (common salt). Other products obtainable from bitterns are magnesium sulphate or Epsom salts, magnesium oxide, magnesium carbonate, potassium chloride and bromide, all of which are of great industrial value. As the average quantity of salt manufactured in India is about 1½ million tons, it is obvious that the supply of bitterns is far in excess of any probable requirements. Magnesium chloride is produced at three places only, at Kharaghoda, at Kuda (in the Dhrangadra State)—both situated on the edge of the Rann of Cutch,—and at Mithapur, seven miles from the Okha port. The manufacturing at Kharaghoda and Okha is in the hands of the Pioneer Magnesia Works, while the works at Kuda are operated by the Mayurdhwaja Swadeshi Magnesia Works.

The first enquiry into the magnesium chloride industry was held in 1924 on the application of the Pioneer Magnesia Works. The Indian magnesium chloride industry was essentially a "war baby" being born out of the necessity caused

[2] Prior to the last war, Germany enjoyed something approaching a world monopoly for this product. At Stassfurth in Saxony, there are extensive deposits of a mineral called "carnallite" of which the chief components are potassium and magnesium. Potassium being the more valuable commodity, the bye-product of magnesium chloride can be disposed of by Germany at very low prices.

[3] In view of the fact that there are no less than 200,000 handlooms in India, the potential demand for magnesium chloride as a sizing mixture is very great indeed. But this is a matter of propaganda.

by the serious shortage which occurred in India during the last war and which caused great inconvenience to the textile mills. The Pioneer Magnesia Works was established in 1916, as a result of the energetic efforts of Mr. B. S. Lalkaka. This Company made huge profits while the war lasted. After the war, however, Germany resumed exports to India at cut-throat prices which were substantially aided between 1922-24 by the tremendous depreciation of the German exchange. As a result, the Company's operations came almost to a standstill. The case of the Company, was therefore, referred to the Tariff Board which brought out its Report in 1925. The main conclusions of the Board were as follows: (1) As regards the first condition of protection, the supplies of the raw material, viz., salt bitterns were enormous and far exceeded the quantity required for the Indian market. Labour was cheap, plentiful and efficient, while the markets of Bombay and Ahmedabad were at suitable distances. (2) As regards the second condition, the Board found that the continuance of the industry without protection was impossible, in view of the fact that manufacture could be carried on only at a loss at the average prices of imported magnesium chloride during 1922-24. (3) It was therefore, the third condition that was of decisive importance. In regard to the future ability of the industry to do without protection, the Board found that the need for protection might continue indefinitely. The Board admitted that it was difficult to determine the *normal* price of imported magnesium chloride, but they shut their eyes to the possibility that Germany was dumping the stuff at prices below those in other markets in order to stamp out the Indian industry and to the artificial factors of the excessive depreciation of the German exchange up to 1924 and of the rise of the rupee exchange thereafter. They just assumed that in Germany magnesium chloride was practically a waste bye-product and, therefore, could be sold at any price, while they ignored the fact that almost the same was the case with the Indian industry. The most astounding statement made by them, however, was that if the industry ceased to continue, no important interest would be injured and that it could not be pleaded that the continuance of the industry was

necessary on *national* grounds.[4] The services rendered by the industry during the war were clean forgotten by everybody including the Tariff Board as well as the Bombay Chamber of Commerce and the Bombay Mill-owners' Association, whom the Board quoted in support of their conclusions.[5] The Pioneer Magnesia Works had initially asked for a 200 per cent protective duty in view of the very low prices prevalent then and much was made of this point both by the Board as well as by the above two commercial bodies. But between April 1923 and October 1924, prices of imported magnesium chloride had nearly doubled,[6] and Mr. Lalkaka stated that he would be satisfied with a protective duty of only 50 per cent *ad valorem*. He also assured the Board that the stable price of magnesium chloride in the post-war period would be in the neighbourhood of Rs. 3 or Rs. 3-8-0 per cwt. The Board cast doubt on the accuracy of this statement, but there is no doubt that subsequent developments bore out Mr. Lalkaka's views.[7] Mr. Lalkaka also expressed a hope that within a short period of five or ten years, the cost of production of his works would fall by at least Rs. 15 or 20 per ton on an estimated yield of 3000 tons, thus bringing down the costs eventually to Rs. 3-11-0 per cwt. He was confident, therefore, that the industry could hold its own and be independent of protection in due course when the protective duty was taken off.[8] The Board regarded these calculations as unduly optimistic,[9] but once again they

[4] *Report*, 1925, p. 14.

[5] *Ibid.*, pp. 10-11.

[6] Cf. *Evidence* (Report), pp. 89 and 128-29. The President of the Board said: "If the price is liable to fluctuation between the limits of £3 and £6 per ton, it will be a somewhat troublesome business to fix any scheme of duties." It was not obvious to the President that this was a case requiring adjustment of duties so as to prevent protection becoming ineffective, especially in view of the fact that Germany was in a position to dump at uneconomical prices at any time.

[7] Cf. *Report on Magnesium Chloride*, 1938, p. 13.

[8] *Evidence*, Report, 1925, p. 81.

[9] The Board's own view was that at current import prices and the Indian fair selling price of magnesium chloride, a protective duty of about 70 per cent would be necessary. However, in view of their vaçillations

were shown to be in error, because by 1937, at the time of the third enquiry, it was found that the fair selling price of magnesium chloride (mill delivery, Bombay), was estimated to have fallen to Rs. 2-12-0 per cwt. only, in place of the "optimistic" estimate of Mr. Lalkaka, and this too within six years from the grant of protection in 1931. Thus it will be seen that the astrological forecasts of the Tariff Board about the third condition were very wide of the mark.

As a consequence of the decision of the Board not to recommend protection, this industry should have ordinarily collapsed in the face of foreign competition, but it was the tenacity and courage of Mr. Lalkaka which triumphed. The industry, under cover of the revenue duty of 15 per cent *ad valorem*, expanded its production and effected reductions in costs in several directions. The output which was 1,300 tons in 1922 increased to 2,700 tons in 1927. It appeared that the industry was on the point of being firmly established, but at this time it received another awkward blow in the shape of the removal of the revenue duty of 15 per cent designed to placate the cotton textile industry.[10] This led to a renewed application for protection. Thus the second enquiry into the position of the industry was undertaken by the Tariff Board in 1928-29. The Board endorsed the conclusions of the earlier enquiry regarding the first two conditions of protection. Regarding the third condition, they held that the question needed reconsideration in view of the fact that the industry had survived so many reverses and held its own against foreign competition. The Tariff Board now held that there was less force in the arguments advanced against magnesium chloride than appeared to be the case in

over the question of future German prices, they hesitated to recommend this measure of protection.

[10] It is not clear how the Government persuaded themselves that this action was likely to help the cotton industry to any considerable extent. The Board calculated in 1925 that the cost of magnesium chloride per yard of cloth was very infinitesimal, about .05 per cent of the total cost. In view of this the abolition of the duty must have provided relief to the cotton industry to the extent of 15 per cent of .05 per cent, or .0075 per cent!

1925. The fact that the article was imported at low prices for some time and was a by-product did not mean that no expense was incurred in its manufacture. Theoretically it was wrong to suggest that a by-product was a waste which could be sold at any price: the by-product had its own demand and supply, and, therefore, an equilibrium price too. It was admitted by the Board that the abnormally low prices, at which magnesium chloride was imported for some time were accounted for by a deliberate policy on the part of the German Syndicate, which controlled the industry, to coerce the Indian producers who had refused to come to terms with it in 1927. It was found that the price quoted for the German magnesium chloride was lower in India than in other countries and was, therefore, clearly of the nature of discriminatory dumping. The Board also found that the Indian producers had reduced their costs by increasing output and by improved methods of extraction. Consequently, the gap between the Indian fair selling price and the import price was considerably narrowed down. The Board pointed out that there were prospects for further economy in the costs of production as also for expansion of markets. They therefore, considered that the third condition of protection was substantially fulfilled and that the case for protection was substantiated. The Board estimated that the duty required would be 15 per cent only, *i.e.*, no more than the former revenue duty which was removed in 1927, and recommended that it should be imposed for a period of seven years as a specific duty of six annas and eleven pies,[11] (an amount approximately equal to the 15 per cent *ad valorem* duty). They also recommended that in view of the uncertainty regarding the course of import prices, a provision should be inserted in the Tariff Act enabling the Executive to impose offsetting duties, if there was any manipulation of prices. The Government of India accepted the recommendation of the Tariff Board regarding the duty of seven annas and the period of seven years, but they did not approve of the executive power to levy offsetting duties, on the ground that

[11] *Report*, 1929, paras. 14-17.

the price had already been stabilised during the preceding three years and was unremunerative to the foreign manufacturer. The "offsetting duty" clause was, nevertheless, inserted in the Bill as passed by the Legislative Assembly in March 1931.[12]

The specific duty of seven annas per cwt. was raised to 8 annas 9 pies as a result of the general surcharge of 25 per cent imposed on all import duties in 1931. In 1933, the case of the industry again came under examination along with certain other minor industries which suffered from unfair competition from Japanese imports owing to the depreciation of the yen.[13] On the representation of the Pioneer Magnesia Works the specific duty was raised further to Rs. 1-5-0 per cwt. or 25 per cent whichever was higher under the Indian Tariff Amendment Act of 1934.

As the period of protection granted in October 1931 was to expire on the 31st March 1939, the question of extending further protection to the industry was referred to the Tariff Board in December 1937. The Board found that during the period of protection, the Pioneer Magnesia Works had achieved progress in all directions, by effecting reduction in costs and by developing an export trade to the United Kingdom and other countries. Between 1930 and 1937, production in India had almost trebled, while imports had halved and there were considerable exports:

[12] The Heavy Chemical Industry Act, 1931, which was enacted on 1st October 1931 and which embodied the decisions of the Government on magnesium chloride and other heavy chemicals. The Act expired in 1933, excepting the part dealing with magnesium chloride.

[13] See *infra*, in this Chapter Section vii on "Safeguarding Duties".

TABLE I

Production, Imports and Exports of Magnesium Chloride

Year	Production (tons)	Imports (tons)	Exports (tons)	Net consumption (tons)
1930	4,402	1,778	...	6,180
1931	5,192	1,827	...	7,019
1932	7,876	1,134	...	9,010
1933	7,588	1,147	829	7,906
1934	8,321	773	1,792	7,302
1935	8,390	746	2,104	7,032
1936	6,573	814	1,559	5,828
1937	11,138	899	2,380	9,657

The bulk of the exports are to the United Kingdom where Indian magnesium chloride is admitted free of duty while foreign magnesium chloride pays a duty of £1 or 25 per cent *ad valorem*, unless imported for use in shipyards. In other countries, quotas, exchange restrictions and barter arrangements hamper the development of trade, but it is a great gain that the industry is now able to compete with Germany in neutral markets. In recent years, owing mainly to the depreciation of the yen, Japan has emerged as a formidable competitor in the Indian market. In view of the uneconomically low prices at which Japan has been dumping the material, the Tariff Board in 1928, felt that the need for protection was still there. The Board stated that if protection were withdrawn there would be the danger of the dumping of magnesium chloride from Japanese or Continental producers, which would lead to the extinction of the industry. The Board further added that barring the possibilities of dumping, the industry could eventually stand without protection. They, therefore, recommended that the industry should be protected for a further period of seven years, but that the specific duty should be reduced from Rs. 1-5-0 per cwt. to 15 annas per cwt. Moreover, they suggested that in the event of dumping, the executive should be empowered to impose offsetting duties so as to prevent the protective

duty being ineffective. Finally, they recommended that if protection was to be continued, the Pioneer Magnesia Works Company, which has been a private company, should convert itself into a public liability company. The Government of India accepted the Board's recommendation in regard to the period of protection, but, on grounds of miscalculation, considered the rate of duty proposed by them somewhat high. Accordingly, they decided to impose a duty of 12 annas per cwt. only, for a period of seven years ending the 31st March 1946.

II

Plywood and Tea Chests

The plywood and tea chest industry in India was, like several others, a "war-baby". During the last war, owing to cessation of imports from Europe, the prices of veneer boxes rose rapidly and great difficulty was experienced especially by the tea industry which used plywood chests for packing tea. It was at the instance of the Munitions Board that the Surma Valley Saw Mills decided to undertake the manufacture of plywood and even obtained a first-class certificate of priority for the import of the necessary plant. In the next year, the Assam Saw Mills and Timber Company was floated and was granted a thirty years' lease for the exploitation of timber from the North-east Frontier Tracts, provided the Company erected an up-to-date veneer factory within two years. On the same basis the Buxar Timber Company was floated with a veneer factory in the Jalpaiguri district of Bengal. Both this Company and the Surma Valley Company, however, failed partly on account of the difficulty of obtaining satisfactory glue during the war and owing to selection of the wrong timber, and within a few years went into liquidation. In the meantime, there arose two more companies, the Jalpaiguri Timber and Lead Mills Company and the Assam Railways and Trading Company, which had a better success.[14] The need for protection arose from the

[14] *Report on Plywood and Tea Chest Industry*, 1928, pp. 11-12.

fact, that, as with so many industries, the post-war period was one of intense competition, particularly from Finland (which holds the first place among plywood-exporting countries), Esthonia and Russia. Owing to the extension of mass-production methods and the large increase in the demand for plywood for the manufacture of other subsidiary products, such as cheap baskets, chair seats, hat boxes, etc., which helped the utilisation of smaller pieces of veneer thus eliminating waste, the foreign producers were able to produce chests at very low prices. Finland had increased her exports from about 13,000 tons to about 44,000 tons between 1920 and 1925. In the face of this competition it was impossible for the Indian industry to hold out without adequate protection. The matter was, therefore, referred to the Tariff Board in May 1927.

The Board applied the triple formula of protection to the industry. As regards the first condition, they stated that there was sufficient timber supply for the plywood industry in India. At the time of the enquiry the output of tea chests in India was under 4 lakhs per annum. The Board found that the total quantity of timber available would be sufficient for the manufacture of about 50 lakhs of tea chests. Next in order of importance amongst the raw materials was casein, which was manufactured chiefly in the Bombay Presidency to the extent of more than 12,000 cwts., which would suffice for nearly 17 to 18 lakhs of tea chests of standard size. The total demand for chests of the tea industry was about 33 lakhs per annum, which indicated enormous scope for development. Apart from raw materials labour was cheap and plentiful; coal was available at short distances and there was a large home market near at hand. Thus the first condition was fully satisfied. As regards the second condition, that too was satisfied in view of the intense competition from abroad. As regards the third condition, the Board concluded that India was in some respects better placed than her competitors in respect of timber, labour etc. The Europeans' advantage lay in two factors, *viz.*, large-scale output and the extent and variety of the market. In the opinion of the Board, these were merely initial advantages, "which an established industry possessed over a new

and struggling industry." The gulf between the fair selling price and the price of imported chests was not very large even then; there was no reason, therefore, why the Indian producer should not be able to reduce his cost of production in course of time, so as to meet competition from abroad on equal terms. Apart from these grounds of assisting the industry, the Board also pointed out the military value of plywood as a material for the wings and fuselage of aeroplanes. Secondly, the importance of the industry was considerable from the standpoint that in a period of war, a major industry like the tea industry would be greatly inconvenienced in supplying tea to the Empire as a whole. The emergence of aluminium as a material for making the body and wings of aeroplanes has, perhaps, rendered the first advantage nugatory, but the second point is still of importance.[15]

Accordingly the Board recommended that the industry was fit for protection. They calculated that the fair selling price for Indian tea chests might be estimated at Rs. 2-15-6 for a chest measuring 19″ × 19″ × 24″, while the import price of a similar chest was Rs. 2-5-7. Consequently, the measure of protection required by the industry was 9 annas 11 pies per chest. Of this, 2½ annas was to be given by way of an *ad valorem* import duty on imported linings and fittings or, in other words the existing import duty of 15 per cent on these should be retained. The remaining 7 annas and 5 pies should be imposed as an export duty on each chest of tea exported, the panels of which were not of Indian manufacture. The period of protection was fixed at 5 years. The reason for giving protection by this combination of methods was that the Board felt that if a straight import duty on tea chest was levied at a higher rate, it would encourage the imports of plywood panels and thus the additional duty would be avoided. On the other hand, the Board were opposed to the imposition of duties on all plywood, thus necessitating protection also in the case of several other articles other than tea chests for which, in the opinion of the Board, no protection was necessary.[16]

[15] *Ibid.*, pp. 17-23.

[16] *Ibid.*, p. 13.

The Government accepted the findings of the Board but they did not agree that protection should be given in the form of an export duty, as suggested by the Board. They did not attach much importance to the objections raised by the Board to the grant of protection by means of an import duty on all forms of plywood. Accordingly they decided to impose a duty of 30 per cent *ad valorem* on all forms of plywood, on the calculation that a 30 per cent duty would mean the same amount of protection as was recommended by the Board.

III

Gold Thread

The Indian gold thread industry is an ancient one dating back to Vedic times and references to gold and silver cloths abound in ancient Indian literature. During the Moghul régime too gold thread was an important article of decoration and it is on record that gold thread products were, in the days of the Moghuls, exported to European countries like France, Italy and Germany. So long as the industry was a handicraft, Indian manufacture held its own in the world markets. However, with the coming of the machine, the Indian industry languished. In the days of Louis XVI, the mechanised gold thread industry received royal patronage in France and it was firmly established at Lyon from where it was in a position to give effective competition to the Indian industry all over the world.[17] The last war gave some respite to the Indian producers[18] to set their house in order. In this they were helped partly by the Departments of Industries of some of the Provincial Governments which encouraged them to adopt European methods of manufacture. During and after the war, the Indian industry was able to

[17] Cf. A. B. Trivedi, Paper on "The Gold Thread Industry of Surat", reprinted from the *Journal of the University of Bombay*, pp. 182-210.

[18] The principal centres of gold thread manufacture in India today are Surat, Benares and Bombay, while the former centres of Poona, Patna, Yeola and Ahmedabad have dwindled in importance.

capture the markets in Northern and Western India, but in the South, foreign manufacturers had already built up trade connections. The Government of India had levied a revenue import duty of 30 per cent *ad valorem* on imports of gold thread. The Indian industry had no trade connections in the South and it suffered also from the lack of proper standardisation and marketing organisation. On top of that, a large amount of gold thread was smuggled *via* Pondicherry. The industry, therefore, had to apply for protection with a view to reorganisation and extension of the Indian market.

The Tariff Board investigated the case of the industry in 1930, and applying the three conditions of the formula of protection came to the following conclusions: (*i*) As regards the raw materials of the industry, viz., gold, silver, silk and cotton yarn (mercerised or otherwise of very fine count), India was better placed than most other countries.[19] The market for the industry was considered steady and, as the industry could be carried on in the worker's own home, it commanded cheaper labour than in Europe. The machinery was run with electric power for which the charges were not particularly high in Surat and Benares. The first condition was, thus, substantially satisfied. (*ii*) Although under cover of the 30 per cent revenue duty, imposed in 1922 and later on increased to 38 per cent in 1930, the industry had been able to expand to some extent, the competition was still very keen in respect of the finest classes of gold thread, while in respect of half-fine or imitation silver-plated copper wire and lametta products, imported mainly from France, competition was particularly injurious. There were certain other factors, moreover, which had counteracted the efforts of the increased revenue duty. In the first place, the rupee ratio had remained at considerably high levels during the period 1922-1930, thus partly negativing the benefits of the duty. Secondly, the price of silver, the most valuable item in the costs of production, had fluctuated widely (e.g., 2s. 2d. per oz., before the war, 5s. 2d. in 1920, and 1s. 4d. in 1930).

[19] Benares is the chief centre for the finest silver wire from which *kasab* and *jari* are made.

Thirdly, at the higher duty large-scale smuggling was being carried on at Pondichery. "It is probable" said the Board, "that at least 20 per cent of the total imports of gold thread enter British India without payment of duty and consequently find no place in the trade returns."[20] In view of these facts, the Board concluded that the industry could not develop adequately without protection and that the second condition was also satisfied. (*iii*) With regard to the third condition, the Board was optimistic that the industry would eventually be able to face foreign competition without the aid of protection, provided in the meantime it adopted better machinery, paid more attention to supervision and training, and availed itself of the co-operation of the Industries Departments. The Board concluded that a case for protection was made out and, therefore, recommended an import duty of 50 per cent *ad valorem*, applying equally to silver thread and wire (including the so-called gold thread and wire mainly made of silver) and silver leaf including also imitation gold and silver thread and wire, lametta and metallic spangles and articles of a like nature of whatever metal made. Protection was recommended for a period of 10 years.[21] The Government accepted the Board's recommendations both as regards the duty and the period of protection, which were embodied in the Gold Thread Industry (Protection) Act, 1931.

It will appear from the following table that the industry has been able to capture the entire Indian market and imports have fallen to very low levels. The period of protection will be expiring in March 1941. Ten years are too short a period to pass any final judgment on the success or failure of the industry. In all probability, if protection is completely withdrawn, the industry will be fully exposed to severe foreign competition. It is necessary to extend the period for a few years more, in view of the possibility that after the war is over, France may make a fresh struggle for capturing the lost market. The recent fluctuations in the French exchanges is also a factor of serious importance; it must be noted that

[20] *Report on the Gold Thread Industry*, 1930, p. 6.
[21] *Ibid.*, p. 16.

while between 1930 and 1936, the French exchange rate rose from 124 francs to 74 francs per £, thus imposing a handicap of about 66 per cent on the French exporters, the same handicap had been recently, in 1939, converted into a distinct advantage of about 133 per cent, when, during 1937-39, the franc exchange depreciated from 75 to 175 francs per £. It is difficult to say how this factor will shape after the war, but at the time of reconsidering the protection it would be well to bear the above two considerations in mind.

TABLE II

Imports of Gold and Silver Thread and Lametta

(In Rs. lakhs)

Year	Gold & silver thread	Lametta	Year	Gold & silver thread	Lametta
1922-23 ...	24.38	6.86	1930-31 ...	20.38	6.26
1923-24 ...	27.61	13.07	1931-32 ...	6.55	4.60
1924-25 ...	26.20	7.36	1932-33 ...	9.96	6.10
1925-26 ...	24.62	4.93	1933-34 ...	6.45	4.19
1926-27 ...	26.68	6.43	1934-35 ...	4.65	3.05
1927-28 ...	28.45	9.73	1935-36 ...	5.14	4.25
1928-29 ...	33.29	10.49	1936-37 ...	3.71	3.01
1929-30 ...	36.97	7.13	1937-38 ...	4.20	2.48

IV

Agricultural Protection

The cases of two agricultural commodities may be conveniently considered here. They are Wheat and Rice. Protection in India has largely aimed at industrial development and to the honest freetrader, protection of agricultural products in a (mainly) agricultural country like India may appear rather unscientific. There are certain special considerations, however, which even theoretically justify the small measure of protection granted to wheat and rice. In the first place, the protection is really of the "safeguarding" variety, i.e.,

intended not to bolster up an impossible product against legitimate competition but to protect an indigenous article of tried merit from the temporary blizzards caused by foreign dumping, the world depression, and glutted foreign markets. Protection of this variety is sometimes necessary for the simple reason that the disequilibrium and chaos which may be ruling in the world market may be of a temporary duration and a home industry may utterly collapse during the period before the economic blizzard is over. The general theory of international trade with its basis of the idea of comparative costs has little application to such abnormal conditions, during the currency of which the local industry must either receive the shelter of temporary protection or go under. In both the cases under review in this section, such considerations applied. It must be further noted that, as may be expected, in the case of the two commodities the question of protection was decided by the Government of India in consultation with the Legislature, without any reference to the Tariff Board.

(*i*) *Wheat*. India is one of the largest producers of wheat in the world as the figures below will indicate:

TABLE III

Production of Wheat

(In quintals 000)

Countries	1931-32	1934-35	1936-37
U. S. S. R.	205,000	304,100	315,600
U. S. A.	253,713	143,263	170,498
British India	94,553	95,204	95,772
France	71,882	92,129	68,979
Argentina	59,792	65,500	67,450
Canada	87,452	75,075	62,384
Germany	42,333	45,327	44,269
Australia	51,877	36,305	40,709

In spite of the fact India is the third largest producer of wheat, however, she does not figure much in the world's

export trade in wheat. Prior to the last war, her exports of wheat were on a sufficiently large scale: thus the pre-war quinquennial average was 1,308,000 tons per annum; during the war, the average was 807,000 tons, but since then the exports fell considerably. In 1935-36, the exports amounted to 10,000 tons only. For this the world chaos in the wheat trade, brought about first by the depression and later by export quotas, bounties, and restrictions, was mainly responsible. Of late, India had even to face the competition of Australian wheat in the domestic market. This unusual occurrence coincided with a serious agricultural depression in India. With the loss of foreign markets, on the one hand, and the intrusion of foreign competition in the domestic market, on the other, the wheat growers of the Punjab were faced by actual destitution. Therefore, with a view to safeguarding their interests, an Act was passed imposing an import duty at the rate of Rs. 2 per cwt. on all wheat and wheat flour, in March 1931. This duty was extended from time to time but was lowered to Rs. 1-8-0 in 1935 and to Re. 1 in 1936. This protective duty expired on the 31st March 1937. In 1937 there was a revival in the export trade in wheat, mainly owing to wars in Abyssinia and Spain and the military preparations in other countries. Owing to a succession of bad crops in the United States, Argentina, and Canada, there followed a scarcity for some time which helped Indian exports to some extent. However, during 1938-39, there was a bumper season in the Western countries, owing to which large imports were again threatened. In 1937-38, the duty was allowed to lapse owing to the fact that India was in the position of a wheat-exporting rather than a wheat-importing country. In view of the change in the situation, therefore, the Government examined the question of reimposing the duty. The Legislative Assembly supported this proposal very strongly and did not even agree to exempt the contracts for importing wheat (the balance of such contracts being over 1 lakh of tons) which were entered before the introduction of the Bill. The protective duty was imposed in December 1938 for the period ending March 31, 1940. It was further extended in 1940 up to March 31, 1941.

(*ii*) *Rice.* Rice is the most important of India's agricultural products, and accounts for nearly 30 per cent of the cultivated area. The principal zones of rice cultivation are Bengal, Bihar, Orissa and Madras. Before the separation of Burma in 1937, Burma was responsible for about 90 per cent of the export trade in rice. However, Burma's total annual production in 1936-37 amounted to only 5 million tons, as compared to the 27 million tons of India. In recent years, India (excluding Burma) has been faced by foreign competition particularly from Siam, French Indo-China and Japan, and in the South the rice trade has been considerably dislocated in consequence. Thus the imports in 1934-35 amounted to 394,000 tons as compared with 88,000 tons in the previous year, while in the period 1937-39, they have been continually on the up-grade. In 1937, they amounted to 906,000 tons; in 1938, 1,047,000 tons; and in 1939, 1,934,000 tons. The conditions in the rice trade have been already depressed since 1930,—owing to the depression—and the adverse effects of the appreciation of the rupee; owing to the increasing imports of rice, the situation has been aggravated. The rice-growers of the South agitated for an import duty on rice. Initially, the Government showed the utmost reluctance to afford this relief, but latterly a duty of 12 annas per maund was levied in 1935. The duty was extended from time to time, and will be in force up to March 31, 1941.

It cannot be said that the consumer of these staple commodities has been unduly hit by the safeguarding duties imposed on them. The incidence of the duties might have been partly passed on to him no doubt, but the enormous fall in the prices of those commodities suggests that the duties only deprive the consumer of a part of the great benefit that he has reaped at the expense of the cultivator in recent years. On the other hand, there is no doubt that the duties have supported the wheat and rice trades and prevented their deterioration and collapse which were threatened by dumping from foreign glutted markets. Under the Ottawa Agreement, the United Kingdom and some of the British Dominions have granted to Indian rice a preference to the extent of 1*d.* per lb. But, from the results achieved, it cannot be said that the preference has been of any real value.

It has been said that Indian rice is not sufficiently polished or well-finished to attract the British consumer, though in quality it is not inferior to Spanish or American rice which is in good demand in the United Kingdom. As regards wheat, the United Kingdom has been our traditional customer, but recently owing to the dislocation of the trade caused by the war and the bumper crops in Europe and America during 1938-39, the export position has become very insecure.

V

Safeguarding of Industries

Another interesting departure from the practice of referring protective tariff measures to the Tariff Board was the scheme of "safeguarding" duties adopted in 1933 under the Safeguarding of Industries Act, 1933. Since 1931 owing to the depreciation of the Japanese yen, there commenced an orgy of exchange dumping from Japan, and the Government of India received representations from numerous small industries asking for protection against the Japanese imports. The question of depreciation of the yen has been referred to earlier at various places, but it may be recapitulated briefly here. The exchange parity of the yen prior to 1931 was about 24·58*d.* per yen. Owing to sterling's departure from gold in September 1931, the yen appreciated to between 30*d.* and 32*d.* during the months of October and December 1931. Then followed the depreciation of the Japanese exchange and the average exchange rate stood as follows in the succeeding years:—

TABLE IV

Depreciation of the Yen

			d. per yen				d. per yen
1931	Jan.	... ...	24.48	1936	Jan.	... ...	14.04
	July	... ...	24.40		July	... ...	14.03
	Dec.	... ...	32.14	1937	Jan.	... ...	13.95
1932	Jan.	... ...	25.33		July	... ...	13.97
	July	... ...	18.62	1938	Jan.	... ...	14.00
1933	Jan.	... ...	14.87		July	... ...	14.00
	July	... ...	14.98	1939	Jan.	... ...	14.00
1934	Jan.	... ...	14.34		July	... ...	14.00
	July	... ...	14.24	1940	Jan.	... ...	14.00
1935	Jan.	... ...	14.00		July	... ...	14.00
	July	... ...	14.14				

It will be seen that the depreciation in the yen amounted to more than 40 per cent between 1931 and 1933. In addition, the effects of the world depression were also noticeable in the reckless dumping resorted to by Japan. In 1933, the Act imposing the safeguarding duties was passed empowering the Governor-General in Council to impose additional duties in all cases in which he was satisfied that foreign goods were being imported at such abnormally low prices as to threaten the existence of an established industry. Applications were received by the Government, prior to giving executive effect to the provisions of the Act, from a number of small industries and a questionnaire on points arising from these applications was also issued in July 1933.[22] The procedure adopted by the Government was already slow enough. On top of that came another hurdle in the way of the operation of the Safeguarding of Industries Act. Under the Indo-Japanese Convention there was a provision for mutual most-favoured-nation treatment declaring that "Articles produced or manufactured in the territories of one of the High Contracting Parties, on importation into the territories of the other, from whatever place arriving,

[22] B. N. Adarkar, *History of the Indian Tariff*, pp. 66-7.

shall not be subjected to duties of charges other or higher than those imposed on like articles produced or manufactured in any foreign countries." Owing to this, it was not possible to give effect to any provisions of the Safeguarding Act which differentiated against Japan. Consequently, another Act known as the Indian Tariff (Amendment) Act, 1934, was passed giving assistance to the industries concerned levying minimum specific duties under the standard rate applicable against all countries. The duties thus levied were exempt from the surcharge of 25 per cent imposed on most other duties under the Indian Finance Act of 1931. Safeguarding duties were imposed on the following articles: alum, magnesium sulphate, and magnesium chloride; cotton under-vests, socks and stockings; glass globes and chimneys for lamps and lanterns; certain kinds of paints; colours and painter's materials; enamelled ironware, electrical earthenware; china and porcelain; lead pencils; tiles of earthenware and porcelain umbrellas; cast iron pipes; woollen hosiery; knitted apparel and fabrics; toilet soaps; hardened and hydrogenated fish oil and whale oil; sugar-candy; household and laundry soap. The Act also raised the existing duties on boots and shoes and uppers therefor; silk or artificial silk mixtures; and certain kinds of cotton fents and woollen hosiery. In any case, it is quite evident that care was taken to select such commodities as were largely imported from Japan, while the preferences granted under the Ottawa Agreement protected the United Kingdom's imports adequately. The procedure adopted was to "restore as far as possible the fair competitive conditions which prevailed in the period before the depreciation of the yen."[23] The year 1930-31 was taken as the base year and the duty-paid price of each article in 1930-31 was corrected for the fall in the general price level since that year. The corrected price was compared with the c.i.f. price of the Japanese article of the same quality, and the difference was adopted as the rate of the specific duty in each case. Although in the case of several protected industries the Tariff Board granted *substantive* protection to correct anomalies arising

[23] *Ibid.*, p. 67.

from exchange and other dumpings and their very procedure of comparing fair selling prices with the *actual* import prices implied the same thing, the triple formula was also rigorously applied. In respect of the above safeguarding duties, there was no question of a detailed inquiry into the basic conditions of each industry, and hence the facile procedure of direct legislation and executive action was resorted to. However, like the proverbial Dead Sea fruit of promise delayed, the duties came into effect much too late for the minor industries. We have no record of the number of small factories which had to be closed down as a result of this inordinate delay, but it must be fairly large. To add insult to injury, the duties were removed in the following year on the expiry of the act on March 31, 1935. There was absolutely no warrant for this reckless action on the part of the Government. If the safeguarding duties were necessitated by the depreciation of the Japanese exchange, the need for them was not surely over in 1935. In fact, as the foregoing Table IV will show the Japanese exchange remained depreciated even afterwards for several years. It is unfortunate, therefore, that the Government should have shown so much haste in removing the safeguarding duties.

CHAPTER XI

INDUSTRIES DENIED PROTECTION—I

Cement

After having surveyed the industries which in some measure or other received protection, we are now prepared to consider the cases of those industries which were refused protection either by the Tariff Board or by the Government. Unfortunately, it is not possible, for want of relevant information, to inquire into the cases of those applicant industries which were not fortunate enough to escape through the bottle-neck of the preliminary Commerce Department enquiries. The industries[1] to be discussed in this and the next few Chapters are: (1) Cement; (2) Glass; (3) Heavy Chemicals; (4) Coal; and (5) Oil. It is true in the case of heavy chemicals, protection was actually granted for two years during 1931-33, but it was as good as not granted in view of the fact that it was withdrawn without any valid reason whatsoever and in great haste. Hence that industry is included here.

I

Introductory

Although the manufacture of cement was commenced in Madras as long ago as 1904 by a local company, the South India Industrials Ltd., it was not until the last war that any real progress could be made by the industry. During 1912-13, three more companies were formed: *viz.*, the Indian Cement Company with a factory at Porebander in Kathiawar, the Katni Cement and Industrial Company with its works at

[1] The Woollen industry must also be classed among these; but, for convenience, its story has already been narrated elsewhere.

Katni in the Central Provinces, and the Bundi Portland Cement Limited with its factory at Lakheri in the Bundi State, Rajputana. The output capacity of these three plants together was in 1925 in the neighbourhood of 76,000 tons. They could work to the fullest capacity owing to the demand caused by the war and the cessation of foreign imports. In the latter part of the war, they were actually under official control and their output was largely bought up by the Government. Immediately after the war, there was a general industrial boom in which the cement industry also participated. Owing to industrial expansion, the prospects for the building trades and cement seemed very cheerful and the companies made large profits thus attracting new investors into the field. Several flotations followed during 1918-21. In few industries was development as rapid and so full of promise. In 1914, a small quantity (945 tons) of cement was produced in Madras; by 1924, there were ten factories at work in India with an output of 550,000 tons.[2] The year 1924, however, saw this infant industry in a state of impending collapse. The industrial boom had already burst. Moreover, most of the new factories had been set up within the geographical marketing areas of the existing works, and internal competition led to a scramble for business at any price for delivery over any distance, with the result that share-holders in the industry suffered appalling losses, estimated between Rs. 2 and 2½ crores. To internal competition was added competition from abroad, particularly from the United Kingdom. During the war, imports of cement from the United Kingdom had ceased, but in the post-war period, imports were resumed with great vigour. Although the British imports were still less than before the war (being 124,000 tons in 1924 as compared to 166,000 tons in 1914), it was a new factor to be reckoned with, so far as the newly founded cement companies were concerned.

[2] *Report of Tariff Board on Cement*, 1925, p. 4.

II

Tariff Board Enquiry

The question of protection to the cement industry was referred to the Tariff Board in April 1924, and the Report of the Board was submitted in February 1925. The case of the industry in favour of protection was as follows:—(1) that the industry was of great national importance, as had been amply proved during the war, when the existence of three cement factories in India proved of immense value and that, therefore, the industry had a claim to protection irrespective of whether the usual conditions were satisfied or not; (2) that, nevertheless, the industry did fully satisfy the three conditions of protection; (3) that, in spite of the fact that Indian cement was in no way inferior in quality to British cement, there existed in the minds of consumers a strong prejudice in favour of the latter, and this fact put the British producers at an advantage; and (4) that although the Indian factories were in a position to manufacture nearly twice as much cement as the country could consume in a single year, imports still continued to the extent of about one-third of the total consumption, and that, if the imports could be reduced, the Indian manufacturer would at once be able to increase his output substantially, thus reducing costs and ultimately preparing himself to face foreign competition without protection. Protection, therefore, was claimed as a temporary measure only.[3] The industry proposed that the customs duty which stood then at 15 per cent (*i.e.*, Rs. 9 per ton on a valuation of Rs. 60 per ton) should be raised to Rs. 25 per ton in the form of a specific duty.

The Tariff Board considered the achievements and prospects of the industry in the light of the triple formula. As regards natural advantages, they stated that the claim that India possessed great natural advantages in the production of cement had been made good. Limestone of excellent quality existed in abundance in many parts of the country and close to the railway lines; suitable clay was invariably

[3] *Ibid.*, p. 2.

to be found in sufficiently large quantities and in close proximity of the works; while gypsum, the only other raw material needed, was produced in the country and though it had to be brought from long distances, the quantity required did not exceed 5 per cent of the cement output. The process of cement manufacture did not necessitate the employment of a large staff of highly skilled workers, and the required skill could be easily acquired by Indian workers. For the rest, the supply of labour was plentiful and cheap. As regards the markets, in the up-country market, the Indian factories had a natural advantage, owing to the additional costs of transporting cement from the ports to that market which foreign importers had to incur. The Board estimated this freight advantage at Rs. 10 per ton on the average. But the principal market for cement was not to be found in up-country but in the great ports, especially in Calcutta and Bombay, and it was in this market that the Indian producers were severely handicapped. According to the Board, more than half the total cement consumed in India was used in these two Presidency towns. This was the first handicap of the Indian factories; another was that the factories had to get their coal from long distances and hence the fuel cost was necessarily high. The two questions the Board had to anwser were, thus, "whether, notwithstanding the distance of the Indian cement factories from the Presidency towns and also from the coalfields, they can hold their own eventually in Calcutta, Bombay, Madras and Karachi without extraneous assistance; and, secondly, what amount of assistance is required at present to enable them to capture these markets."[4]

Before answering these questions, the Board made an attempt to estimate the probable future market for cement in India and came to the conclusion that, although cement consumption was continually on the increase and was likely to maintain the rate of increase, the problem of excess capacity would still remain for a long time to come. "In view of the excess of productive capacity over demand," however, "a rapid expansion of consumption is what the industry chiefly

[4] *Ibid.*, p. 7.

needs," and this would not be possible unless there was a reduction in prices. The prices in 1924 were no doubt low and unremunerative, but were the result of intense internal competition. The Board emphatically observed: "If the importation of foreign cement were prohibited by law, it is doubtful whether the internal price would be affected. This fact has an obvious bearing on the claim for protection."[5] It was, no doubt, true that British cement enjoyed a prestige of superiority which was not justified wholly by facts, in view of the high quality of Indian cement,[6] and which was mainly due to the early tradition of British cement amongst the contractors. As regards the second condition,[7] the Board stated that if protection were not granted, there would probably be a serious decline of the industry, and that it seemed "inevitable that all but three or four of the factories should go out of production." The few factories which would still remain in existence would be able to do so because of the 15 per cent revenue duty and the freight advantage in North Indian market. The consumer's preference for the British cement was such that he was not prepared to pay the same price for Indian cement as for the British cement. For the latter Rs. 57 per ton was the price in ports. The Board calculated that a difference of about Rs. 8 in the Bombay market and Rs. 12 in the Calcutta market would enable the Indian concerns to retain and strengthen their hold. They calculated also that the fair selling price of Indian cement in the ports was between Rs. 52 and 58 per ton. The question, therefore, was how to compensate the Indian manufacturer

[5] *Ibid.*, pp. 11-12.

[6] The Board quoted several opinions in support of this, including that of Mr. Brodie of the Government Test House at Alipore.

[7] It is curious that the Board considered this condition in paragraphs 55-57 on the supposition that it was the *third* condition, concluding thus: "We think that the third condition laid down by the Fiscal Commission is satisfied in the sense that unless assistance is given, more than half the companies will have to shut down. If on the other hand, they are protected for the next four or five years, it should *be possible to preserve the great majority, if not all.*" It was not mere *preservation* but the ultimate success of the companies and their dispensing with protection which was the requirement of the third condition.

adequately so that he would be able to sell at a price of Rs. 45 in Calcutta (Rs. 12 less than the price of British cement in Calcutta) and Rs. 49 in Bombay (i.e. Rs. 8 less than the price of British cement in Bombay). In this connection, however, the Board rejected the proposal of the Indian manufacturers regarding the imposition of a specific duty of Rs. 25 per ton, on the grounds, firstly, that it was too high a rate in view of the competitive position of the Indian industry; secondly, that even at that rate, Indian factories could capture the Burmese market in view of the cost of transport; and thirdly, that so long as the Indian manufacturers were engaged "in internecine conflict amongst themselves, a protective duty would be inoperative, because the price would still be regulated entirely by internal competition." The Board, however, hoped that the period of violent price-cutting could not continue much longer and it was a purely temporary phase. They prognosticated that it might come to an end by the formation of a combine amongst the manufacturers, or by the elimination of the weaker firms in the struggle for existence, or by a combination of both methods. For these reasons, the Board favoured a system of bounties rather than protective duties. However, they said, the bounty should be granted not on production but on cement consigned to the ports.

The objections which the Board raised against the imposition of protective duties do not appear to be quite sound. Of course, their finding that the differential disadvantage of the Indian producers was far less than Rs. 25 need not be questioned, but the reasons which they gave for rejecting protective duties altogether cannot be accepted without scrutiny. The objection that Indian producers would not be able to compete in the Rangoon market was equally applicable to a system of bounties in view of the extra cost of transportation to Burma. The bounty system, which the Board devised, did not in fact contemplate the possibility of any export to Burma. The Board themselves stated: "We do not think it likely that any large quantities will in fact be sent to that market unless additional assistance is given."[8] As

[8] *Report on Cement*, p. 42.

regards the final objection that protection was not likely to help and, that the price would be regulated entirely by internal competition, the proper answer was (as given by the Indian manufacturers) that in any case the Indian factories would be able to secure a 50 per cent increase in output, and that this would bring about a reduction in costs. The Board, in essence, meant to point out that the difficulties of the Indian industry were due to "internecine conflict" and no amount of extraneous assistance could help. Now, in so far as this observation was valid, it applied equally to duties as well as bounties. In regard to internecine conflict, the theory of competition is that by the law of the survival of the fittest, the inefficient firms would ultimately be weeded out. On the other hand, if there is combination, it would be a case of monopoly or quasi-monopoly, leading perhaps to a similar consequence of high general efficiency with reduction of overheads etc. In either case, whether protection is granted by means of enhanced duties or bounties, the probability of result is the same. If, however, the anxiety of the Board was to prevent the collapse of the industry, that aim would have been equally well achieved by the several concerns joining together in a combine. Whether this combine came into being as a result of lack of protection, or lack of bounties, or intensive cut-throat competition injurious to all, was not material. The chief reason for which text-book writers on public finance prefer bounties to duties is the fact that the incidence of the former falls upon the general taxpayer while that of the latter falls upon the consumer of the commodity to a greater or less extent, and that, in certain cases, it is preferable that the taxpayer (especially if he is better-off than the consumer of the commodity concerned) should bear the burden of protection. There are no doubt other arguments too, but neither the above nor any other was applicable to the case of cement. It was quite clear that the woes of the Indian cement industry in 1924 were due to (1) the overproduction caused by the flotation of too many companies and (2) the re-emergence of the British competition, on a very considerable scale, after the war. There was nothing that the Board could do to remedy the former. As regards the latter, they should have made up

their minds whether it was desirable and possible to eliminate British competition. Instead of that, the Board in their actual proposals, as will be seen below, put conditions to the grant of bounties which were bound either to remain unfulfilled or to give the Government a chance to defer protection indefinitely. There was no doubt that by reserving the coastal markets for the Indian industry, there would have been definitely more elbow-room for the existing factories, which would have been in a position to work up to their full capacity and thus to produce cement at considerably low costs. It was also likely that owing to healthy competition, under the circumstances, some few concerns would have had to liquidate themselves, but, on the whole, the industry would have been able to maintain itself on sound lines. Why the Board should have made a bogey of possible competition after protection was granted and foreign imports were shut out, passes one's comprehension. Their further insistence, that bounties should be granted only if the concerns agreed not to sell cement at low prices, undercutting each other, was, under the circumstances, not warranted.

The main proposals of the Board were as follows: (1) A bounty of Rs. 8 per ton should be paid on all cement consigned from an Indian factory through or *via* Calcuta, Bombay, Madras or Karachi, or to any railway station not more than 75 miles from these ports; (2) a bounty of Rs. 4 a ton should be paid on all cement consigned from an Indian factory to any railway station more than 75 miles from any of these ports; (3) no bounty should be paid on any cement delivered under the contract between certain cement companies and the Bombay Development Department,[9] or to the Sone Valley Portland Cement Company;[10] (4) in place

[9] For the reason that the contract provided for a price which was so low that it "would be absurd to make any addition to a very remunerative price." (*Report*, p. 39).

[10] For the reason that this Company—besides being a subsidiary of the British firm, the Associated Portland Cement Ltd., and therefore ineligible to receive bounties unless it satisfied the conditions regarding rupee capital etc., laid down by Section 5 of the Steel Industry (Protection) Act, 1924,—had refused to disclose details regarding its costs of

of the existing revenue duty of 15 per cent *ad valorem*, a specific duty of Rs. 9 per ton should be imposed on all imported cement and should be declared protective; (5) if the cost of proposals, 1 to 4 appeared excessive, the scheme might be modified as follows:—

(*a*) the bounty to be fixed at Rs. 5 per ton at the ports and at all railway stations not more than 50 miles distant from the ports;

(*b*) the bounty to be fixed at Rs. 3 per ton at all railway stations more than 50 but not more than 100 miles distant from the ports; and,

(*c*) a specific duty of Rs. 12 a ton to be substituted for a specific duty of Rs. 9 a ton.

Finally, (6) whichever scheme was adopted, "it should not come into force *until* the Government of India were satisfied that the price of Indian cement in the ports was *in such relation to the price of imported*[11] *cement* (sic) that the payment of bounties would not lead to a reduction in the price of Indian cement."[12]

III

Government Rejection and Aftermath

As may be expected, the Government did not accept these conditional and hesitating proposals, and announced that they saw no justification in their intervention, in view of the fact that the difficulties of the industry were caused by cut-throat competition amongst the manufacturers themselves. In the subsequent year (1926), however, as a result of a fall in the price of imported cement, the *ad valorem* tariff (of 15 per cent) was altered to a specific one (at Rs. 9 per ton)

production, and hence it was impossible to estimate the measure of bounty necessary in its case. (*Report*, p. 40).

[11] My italics.

[12] This condition precedent was rightly opposed by one Member of the Board Mr. (now Sir) P. Ginwalla on the ground that it would enable the Government to defer action indefinitely and that the industry was in urgent need of immediate assistance. He was in favour of immediate grant of bounties and their withdrawal after two years, if the above condition was not satisfied by the factories.

in order to safeguard the revenues. This was, however, a purely revenue measure, although it is claimed by some that the change was based on the findings of the Tariff Board and had the effect of enhancing the duty on imported cement. There is no doubt that, in the year 1924, the cement industry had as good a claim as any other for protection: it fulfilled all the essential conditions of protection. True, there was severe internal competition, but sooner or later this was bound to end up in the elimination of the weaker firms or in a combination. In neither case, would there have been any catastrophe. The indifference of the Government towards the industry was the direct consequence of the Tariff Board's doubting attitude. However, it is to be noted that directly on the Government's announcement, three of the new companies went into liquidation and several others threatened to follow suit.

This state of affairs could not continue indefinitely and the years 1926-29 saw the first step towards cohesion, when the survivors of the *debâcle* formed an Association known as the Indian Cement Manufacturers' Association. The function of this Association was to fix and regulate selling prices. Representatives met once a week for this purpose, but each company was a separate entity with its own selling arrangements and each was out to obtain the maximum possible business for itself. But it is noteworthy that, during the whole of the four years of the Association's career, there was not a single case of price-cutting. The Association also brought into existence in 1926 a joint "sales service", maintained out of a cess of 5 annas per ton on all cement sold, called the Concrete Association of India for the purpose of educating the public to the uses of cement and to provide free technical aid and advice to the consumer. The next step was the establishment in 1930 of the Cement Marketing Company of India to take over the control of the sales and distribution of almost all the manufacturing companies. The member companies of this new organisation worked on a system of quotas, which were based on the stated capacity of each factory, the aggregate tonnage adopted as the datum figure being 722,000 tons. Between 1932-34, two new companies, the Coimbatore and the Dawarkhand Cement Company were floated by the

member companies, which increased the datum tonnage to 922,000 tons. With the aid of the Concrete Association, sales were increased and between 1930-36, the selling price of cement was reduced from Rs. 54 per ton to about Rs. 44 per ton on the average. The constitution of the marketing company, however, presented numerous difficulties and problems right from the beginning. One early and acute incident over the matter of expanding business in South India was overcome by the sagacity of the late Sir F. E. Dinshaw, who was the one man responsible for saving the Indian cement industry from a series of calamities and raising it to its eminence among the Indian industries. In this particular instance, he persuaded the member companies to erect the Coimbatore Works in a joint capacity, each Company taking a share of the required capital according to its quota share in the Marketing Company's agreement. Thus, in spite of an apparent prosperity, the atmosphere inside the industry was one of armed neutrality with each company expanding and modernising its plant and looking forward to an opportunity to grow at the expense of others. The inter-company agreement, which formed the basis of the Marketing Company's arrangements, was to last until 1940, but there were already clouds of impending trouble on the horizon. Moreover, although the quota system worked satisfactorily in certain respects, it militated against economical distribution, for in allocating to each works its quota of total annual sales, it was often necessary to transport cement from one particular factory to an area which would have been more economically served from another factory near the area. It, therefore, became evident that a complete fusion of manufacture and sales would be necessary to enable the industry to tide over all these difficulties.[13] Thus, in 1935, mainly due to the efforts of the late Sir F. E. Dinshaw, the cement merger of the ten principal companies came into existence. The aim of the Associated Cement Companies Ltd., which took over a total annual capacity of nearly 1,165,000 tons, can be best expressed in the words of its progenitor himself: "The object of the merger will

[13] Cf. *History of the Cement Industry in India*, pp. 8-9.

not be to attain a monopolistic position. Its primary object will be to make and deliver cement as cheaply as possible so that it may be able to hold its own against any possible internal competition as well as foreign competition. I am suggesting a merger not only as a protection against such competition but as a means of securing a complete unison of interests amongst all those concerned. The merger scheme incorporates all the advantages of the present arrangements under the Cement Marketing Company, ensures a number of extra ones and presents both in a permanent form."[14] By the end of 1936 the A. C. C. possessed a total output capacity of 1,265,000 tons. The Sone Valley Company, the chief outsider, with whom an amicable working arrangement had been in force for many years, had a capacity of 200,000 tons. Thus the total capacity of the country in 1936 was 1,465,000 tons. The year 1937-38 was a successful year for the A. C. C., but the threat of new competition arose in the shape of the Dalmia Cement Company, with a programme of a chain of factories (of which two have already been opened), and another company to cater for the East Bengal and Assam market. There is reason to believe that the orderly development of the industry will be hampered by the rate war provoked by this multiplication of factories. From the point of view of national planning, it is desirable that the new companies should amalgamate with the A. C. C., instead of bringing into existence a situation similar to that which prevailed prior to 1925.

[14] Quoted in the Foreword to the *History of the Cement Industry in India*, p. 1. The Merger was floated with a total share capital of 8 crores of rupees. The basic proposal was to convert the shares of existing companies into shares of the new Merger. Shareholders in existing companies were offered cash or shares of a higher denomination. The Cement Marketing Company became the selling branch of the A. C. C. while the Concrete Association was made the propaganda department. See *Indian Finance Year Book*, 1939, p. 294.

IV

Conclusion

It may be an interesting speculation to consider whether the course of the cement industry would have been much different from what it has been, if protection were not refused during the critical period of 1924-26. It can hardly be gainsaid that the real dose of protection was first received by the industry in the last war owing to cessation of foreign imports. Prior to that, although a factory was in existence in Madras for nearly ten years, it had been struggling against odds. Thus, it can hardly be said that the cement industry in India arose and progressed without any extraneous assistance. True, the industry possessed unique advantages of different kinds, but would those advantages have been realized if the industry were called upon to face foreign competition under normal circumstances? The votary of *laissez-faire* may be tempted to point his finger towards the cement industry and say that what has been possible in the case of cement could have been achieved even elsewhere. However, in drawing such a conclusion, he should be ignoring the effects of an adventitious factor like the last war and the subsequent emergence of the cement combine. It was this latter move which saved the cement industry from collapse due to internal and external competition. There is no doubt that the refusal of the Government to grant protection forced the manufacturers to accept trustification. In this case, it was not the Tariff which was the mother of the Trust, but it can truly be said that the A.C.C. was born without this traditional "mother", and that it was formed not to exploit the market under shelter of the tariff, as Trusts have done in several countries including the U.S.A.,[15] but to set the house in order and to breathe new life into the industry. It is not possible to say whether the A.C.C. would have come into existence, if protection were granted in 1925. Protection, if it were granted early enough, would have probably saved enormous losses to the shareholders in the post-war period. In any case, some kind of

[15] *Some Aspects of the Tariff Question*, pp. 171 and 100-14.

all-India selling arrangement could have been found possible as well as necessary. On the other hand, one shudders to think what would have happened if, in 1926, the companies had continued the rate-war without coming to any agreement as regards amalgamation or co-operative selling. In all probability, owing to the adverse effects of foreign competition, aggravated by a high exchange ratio and the depression, combined with those of unhealthy internal competition, the industry would have mostly collapsed. In view of this conclusion one cannot help remarking that the action of the Government in refusing protection to the industry in 1925 was somewhat irresponsible.

Since 1930, however, the progress of the industry has been remarkably continuous, as may be seen from the figures below:—

TABLE I

Production and Consumption of Cement in India

(In tons 000)

Year	Production in India	Imports	Total consumption
1914	.9	150	151
1919	87	83	170
1924	264	88	352
1929	561	75	636
1930-1	570	64	634
1931-2	583	58	641
1932-3	586	61	647
1933-4	642	49	691
1934-5	746	49	797
1935-6	886	43	929
1936-7	980	38	1,018
1937-8	1,002*	32	1,034
1938-9	1,800*	21	1,821

* Approximate.

From modest beginnings in the pre-war period the industry has rapidly grown in spite of obstacles of various kinds. Further growth would be possible if there is a progressive programme of public works in the country, including construction of roads, bridges etc. It also depends, to a large extent, on the development of the sister industries in India, for it is by such cumulative progress that industries grow, providing markets for each other and at the same time developing the country's wealth in an all-round manner. Both these conditions presuppose the active co-operation of the Government of the country in regard to a co-ordinated policy of tariff and public works. The national importace of the cement industry can be gauged from the following figures, which clearly indicate that the industry deserves the active support of both the Government along the lines suggested above:—

TABLE II

The Importance of the Cement Industry[16]

Freight paid to Indian Railways	Rs.	1,46,31,660
Indian jute bags used	Rs.	1,77,25,340
Indian coal consumed	Tons	4,43,148
Sales of Indian cement	Tons	8,86,267
Sales of imported cement	Tons	42,900

[16] The figures are for the year 1935-36. Later figures were not available. In recent years, production has increased by leaps and bounds. Consequently, the above figures need to be mentally corrected for the increase that has taken place. Cf. the previous table.

CHAPTER XII

INDUSTRIES DENIED PROTECTION—II

HEAVY CHEMICALS

I

Introductory

Among "heavy chemicals" the most important groups are, firstly, sulphuric acid and the chemicals based on it, and, secondly, the various forms of soda and the compounds based on them, which make up the Alkali industry. It was the first group based on sulphuric acid which has been able so far to record any considerable progress in the country. At the time of the Tariff Board enquiry in 1928-29, there was practically no production of any chemical of the latter group, but recently the Imperial Chemicals Ltd., and the Tata Chemicals Ltd., have been able to make a beginning in the direction. The following chemicals, falling in the first group were referred to the Tariff Board for examination: sulphuric acid, nitric acid, hydrochloric acid, magnesium sulphate, ferrous sulphate, potash alum, aluminium sulphate, sodium sulphide, zinc chloride, copper sulphate and Glauber's salts. The basis of the entire group is sulphuric acid. The products of the chemical industry are widely in use in India in most of the industries, including the textile industry, the paper industry, the glass and porcelain industry, the rubber industry, the soap and candle industries, and can also be utilised in the production of artificial silk, paints and varnishes and a number of other articles of great industrial importance. The vital importance of heavy chemicals to the Indian economy can be gauged from the figures given below for imports of these chemicals and of materials in the manufacture of which chemicals are largely used :—

TABLE I

Imports of Chemicals and Chemical Products

(Rs. lakhs)

	1913-14	1927-28	1937	1938	1939
Sodium Compounds	33	112	339	305	342
Other chemicals	62	132	...	...	...
Explosives	16	27	57	26	23
Glass and Glassware	194	248	150	130	109
Dyes	106	216	104	90	88
Soap	75	161	24	22	21
Fertilisers	9	42	71	103	120
Artificial silk	...	549	527	232	369
Total ...	495	1487	1252	908	1072

In spite of the availability of a large number of the raw materials of the industry, prior to the last war only a few chemicals were produced in India and in microscopical quantities. It was the last war which gave a fillip to the Indian chemical industry by shutting out foreign imports and making local production profitable. The industry, therefore, was another "war baby" nursed by the temporary protection afforded by the war, and, moreover, like similar other war-born industries, was greatly helpful to the Government in a critical period. The solicitude of the Government to develop the chemical industry in India during that period was evinced by the efforts of the Indian Munitions Board and of the Industrial Commission, and the off-shoots of these bodies, which were all time-serving in character. After the war, however, as may be expected, the industry had to face the concerted competition of two powerful foreign combines, *viz.*, the Imperial Chemical Industries Ltd., of England, and the I. G. Farbenindustrie Aktiengesellschaft of Frankfurt in Germany, which dominated the world markets. As in the case of the Swedish Match Company, which was following a policy of discriminating monopoly in India to the detriment of the Indian match manufacturers, these two combines, with their enormous resources, threatened to engulf

the Indian industry.[1] On top of that came the difficulties created by the appreciation of the rupee exchange from 1924 onwards. Between 1913-14 and 1927-28, the imports of most of the chemicals increased enormously, as may be seen from the foregoing table. During the war, the European plants were inflated in their productive capacity and, consequently after the cessation of the war demand, there was a vast surplus capacity everywhere, resulting in a general scramble for markets. This world-wide problem of surplus capacity was also largely responsible for the difficulties of the Indian industry.

II

The Tariff Board Enquiry (1928-29)

The Tariff Board made a very searching enquiry in 1928-29 into the conditions of the industry and, on various grounds to be detailed later, they came to the conclusion that the claim of the industry for protection was largely justified. In the course of their findings, they made important observations on railway rates policy and upon the theoretical aspects of Discriminating Protection, which will be noticed in a subsequent chapter. Here we shall briefly state the main conclusions of the Tariff Board regarding the prospects and progress of the industry in India. The national importance of the industry, on various grounds, was so great that if the Tariff Board had merely stated that alone as the reason for protection, it should have been sufficient for any right-minded Government to take the desired action. However, it is an unfortunate commentary on the sincerity of the Government's fiscal policy that in spite of the fact that the Board discussed the question of protection and also the likely objections almost threadbare, the Government finally withdrew protection for precisely the same reasons which were completely answered and laid low by the Board.

"One of the principal grounds on which the chemical industry may establish a claim to public assistance is that it is

[1] *Report of the Tariff Board on Heavy Chemicals*, 1929, p. 54.

a *key* industry." This was the first conclusion of the Board. The second conclusion was that the importance of the chemical industry from a national viewpoint rested not merely on the fact that it was a key industry but also on the fact that its products were indispensable for purposes of *national defence*. Sulphuric and nitric acid were the basis of high explosives and the industry was of supreme importance in time of war. The Board noted that during the war some of the factories had supplied chemicals and that their quality was approved by the Army Supply Departments. They also stated that the Fiscal Commission in their Report (paragraph 106) had supported the protection of industries not only on economic grounds but on grounds of national safety as well. "In such a case," the Board contended "economic considerations play a secondary part and the question of the cost of production hardly arises." In spite of these strong favourable arguments, the Board further strengthened the case for protection by going thoroughly into the question of costs and natural advantages, so as to produce a sort of "cumulative" evidence. They admitted that India had no special advantage in regard to sulphur, as compared to the chief suppliers of that material, like Italy, the United States and Japan; however, the absence of sulphur was not, in their opinion, an insuperable objection, because in times of emergency it could be largely replaced by synthetic ammonia for the preparation of explosives in time of war. For the rest, sulphur could be imported from abroad, as is done by a large majority of countries like Great Britain and Germany, who were India's competitors. Moreover, if, on grounds of national defence, cost of production is regarded as a secondary factor, it was possible to produce sulphur from other sources at a somewhat higher cost. In any case, the other materials necessary for combination with sulphuric acid were available in sufficient quantities in India. As regards the market, it was sufficiently large to permit of production of chemicals on an economic scale. The machinery used in modern works was generally of the automatic type and required little labour and supervision. As Indian labour had been found quite satisfactory and the scale of wages was much lower than in Europe, there would in this respect be some advantage in

India's favour.[2]

There was, however, one defect in the organisation of the Indian chemical industry, *viz.*, that it was a small-scale industry. The cost of producing the different salts is governed by the cost of producing sulphuric acid. Now although, the import of sulphur is not costly, that of sulphuric acid entails heavy cost of transportation. Sulphuric acid is corrosive, packing is expensive and the drums in which it is packed are bulky and difficult to handle, while its transport from Europe is not entirely free from risk. Hence freights are as high almost as the price of the material itself. Thus, by virtue of the heavy freights, the Indian producers of sulphuric acid have always enjoyed a natural protection. However, one result of this has been that, as in the match industry, production is spread over a large number of small concerns instead of being concentrated in a few large concerns. With a small output, the cost of manufacturing sulphuric acid is bound to be high, and in consequence of this the cost of the resultant salts is also likely to be high. Since the salts are not protected against foreign competition either by freights or tariffs, it has proved difficult for the Indian producer to compete with the foreigner. The Board, therefore, emphatically stated that, "one of the most important aspects of the problem before us is the possibility of so organising the chemical industry as to admit of the production of sulphuric acid at an economic cost, since in modern conditions the chemical industry perhaps more than any other depends for its success on large-scale production."[3] They further stated that, although it was not necessary that in the case of India the unit of production should be so large as in Europe, where the international combine were catering for international markets, "if the chemical industry is to be established in India at a cost to the consumer which in the end will be commensurate with the results, it must conform, within reasonable limits, to the conditions imposed by the considerations of rationalisation."[4]

[2] *Ibid.*, pp. 10-13.

[3] *Ibid.*, p. 9.

[4] *Ibid.*, p. 73.

However, in attaining the ideal or economic unit, the Board considered that the railway rates policy was a very decisive factor, for cheap transport was essential to the growth and the economic localisation of the factories.

As regards the second condition of the triple formula, the Board compared the "present costs" and fair selling prices with the c.i.f., landed prices of foreign chemicals and showed that the industry was incurring enormous losses on all but a few of the materials. The three acids, sulphuric, nitric and hydrochloric, enjoyed a natural protection due to difficulties of importation and heavy freights, but as regards the chemical salts in most cases the condition was different, necessitating duties ranging from 20 to 200 per cent. This fact itself was proof enough that the second condition was fully satisfied and that the industry could not carry on without protection. But the Board refrained from recommending protection at such high rates for the reason that it "would tend to perpetuate the organisation of the industry in small units, which we hold to be uneconomic and contrary to modern principles of manufacture."[5]

Dealing with the third condition, the Board stated that it was always the practice of the Board "to attempt by a detailed and critical exposition of costs to set forth the position which the Indian manufacturer may reasonably be expected to attain within a measurable period." In conformity with this practice, they estimated the probable future costs on the assumption, firstly, of an output of 8,000 tons of sulphuric acid, and, secondly, of a 16,000 tons of sulphuric acid, and arrived at the conclusion that the incidental economies of extending the scale of production would be such that the industry would ultimately be able to face world competition without any extraneous assistance.

As the Board were anxious that the inefficient, small-scale unit should disappear, they took care to recommend protection on a basis which would bring about a larger scale of production. Therefore, they decided not to exceed the existing revenue duties to any great extent in making their

[5] *Ibid.*, p. 30.

tariff proposals. The rates they proposed were moderate, especially so for a key industry as the chemical industry, as will be seen from the schedule below:—

TABLE II

Rates of Protection Proposed

Product	Specific duty Rs. per ton	Ad valorem equivalent %
Sulphuric Acid	...	15
Nitric Acid		
Hydrochloric Acid		
Glauber's salts	7	19
Sodium sulphide	28	24
Zinc chloride	86	34
Epsom salts	25	44
Copperas	2	2½
Copper Sulphate	60	15
Alumino-ferric	11	17
Aluminium Sulphate	16	17
Potash Alum	18	15

The Board recommended specific duties in all cases except in the case of the three acids, as there were too many qualities among them and *ad valorem* duties appeared more convenient. The specific duties are shown in the second column above; it will be seen that in most cases their *ad valorem* equivalents did not exceed the existing *ad valorem* revenue duties of 15 per cent, barring zinc chloride and Epsom salts. The Board were afraid, however, that perhaps the international combines, under stress of inevitable circumstances connected with the slump and general overproduction, might attempt to dump chemicals at abnormally low prices. This was not unlikely, as the course of prices of most of the chemicals under consideration had fallen drastically during the years 1922-28. They, therefore, suggested that the legislation should empower the Governor-General in Council to take action to counteract any such possibility with a view to making protection effective. In this connection, they quoted the case of the Steel industry for which such provisions were made in the Steel Industry Protection Acts of 1924 and 1927.

In addition to the above duties, the Board also recommended a system of bounties for manures, principally for superphosphates, stating that "apart from its connection with the chemical industry, the production of artificial fertilisers such as superphosphates and ammonium sulphate has a most important bearing on the development of Indian agriculture." And, they further added, "it is anomalous that a country in which 90 per cent of the inhabitants are agriculturists should have to depend upon foreign imports for such an important adjunct to agriculture as artificial manure."[6] For paddy, sugarcane, rubber and tea, there was a great and growing demand for fertilisers which could and should be met internally. Although there were no concerns which were manufacturing fertilisers on any large scale for internal consumption, except ammonium sulphate, it was desirable in the interests of the country that a large-scale industry should be established; for, India could not "afford to suspend activity until the commercial success of the new process of manufacturing fertilisers is established." The Board, therefore, proposed a direct bounty on superphosphate at the rate of Rs. 18 per ton, while no protection was found necessary in the case of ammonium sulphate.

After making these recommendations, the Board passed certain *obiter dicta* on the Government's railway freights policy, which coming from such well-informed quarters are of considerable interest. As later on, the Government, as may be expected, turned down the proposals of the Board in this connection, there is an added interest in them. The Board did not, indeed, suggest any direct assistance to the industry by a *reduction* of railway rates. They only pointed out that *within* the existing structures of railway rates, between the existing maximum and minimum rates, it was possible for the railway companies to adjust their rates so as to benefit the industry as well as themselves. "Fixation of rates", they said, "must to some extent be experimental and alterations are made as fresh facts are brought to the notice of the railway authorities." The accepted principle in the assessment of

[6] *Ibid.*, pp. 57 and 72.

railway rates has been the well-worn principle of "what the traffic can bear." However, this principle is interpreted in a very narrow and immediate sense; the railways do not make any attempt to develop the very traffic, which is to "bear", by experimental rates capable of mutual benefit. Even on this principle, however, the Board found it difficult to agree with the peculiar classification of chemicals adopted by the railways, which had given rise to a number of anomalies. Differentiation between the various chemicals was quite arbitrary and the Board suggested an early revision. Another feature of railway traffic has been the employment of what is known as the "telescopic system", that is the fixation of rates on a scale decreasing in proportion to the distance of transport. This system is supposed to justify the differentiation of rates between shorter and longer distance. In particular, the very old complaint regarding preferential treatment accorded to imported as against local goods was voiced by the Board once more. "We are referring to no new feature of railway administration when we point out that the tendency of the railways to encourage traffic from and to the ports, which has been brought under criticism on several occasions, is still to be seen though perhaps not to the same extent as before. We are informed, for instance, that the freight on some of the chemicals from Ambernath to the interior was higher than from Bombay to the same places, though the distance in the latter case was about 45 miles longer. We pointed out this to the Agent of the Great Indian Peninsular Railway and he assured us that if his attention had been drawn to this, he would have equalised the freights from the two places. But equalisation of the freights does not, in our opinion, meet the objection that *the indigenous industry is deprived of its geographical advantage* and the foreign industry is to that extent given a preference over the indigenous industry...... It is essential that considerations of railway finance should be subordinated to the interest of the country as a whole."[7] Further, they pointed out that in the case of a key industry like heavy chemicals, the railways might reasonably be ex-

[7] *Ibid.*, p. 91.

pected to accept special rates. "A railway is a public utility and its object must be to provide transport at the cheapest possible rate, so that both industries and agriculture may develop and so add to the prosperity of the country. We have no desire to enter into any controversy as to whether the policy of the country with reference to railways ought to be on different lines, but we think it must be pointed out that so long as railways are used not merely as public utility services but as a source of profit or rather of taxation, the reduction of freights so necessary to the development of industries must be retarded."[8] Accordingly, the Board made the following specific suggestions for the consideration of the Government in relation to the heavy chemical industry. (*i*) Firstly, that the freights payable on the various raw materials and finished products of the chemical industry should be reduced to the lowest possible rates; (*ii*) secondly, that in order to introduce uniformity and create certainty as to the incidence of the freight, so far as possible, uniform rates for chemicals be adopted on all railways; and (*iii*) thirdly, that, if telescopic rates are to be adopted, they should be applied as a through rate in the case of coal, and a similar concession should be given in the case of fertilisers as well. The Board might have added that such concessions were given to key industries in all modern countries, where railway policy was regarded as an integral part of general economic policy and not, as in India, the fountain-head of fat dividends. India unfortunately has a railway administration, more or less permanently, dumped upon her, which regards itself as above public control and whose policy is for ever divorced from all ideas of economic development and public weal.

III

The Fate of Protection

The Government of India, in their decision on these proposals, emphasised (what was quite obvious and what

[8] *Ibid.*, p. 97.

needed correction through the scheme of protection and revised railway freights as proposed by the Board) the highly unsatisfactory character of the existing organisation of the industry, and borrowed the Board's own observation that excessive protection might serve only to perpetuate the uneconomical organisation. The Government omitted to consider that it was because of this that the Board had proposed a moderate scheme of protection and suggested various other alternative measures to remedy the defect of the industry; but instead of looking at the problem with sympathy and responsibility, the Government, as usual, availed themselves of the drawback as an *argument* against protection. However, as a result of agitation and pressure from the Legislature, the Government agreed rather grudgingly to grant protection at the rates proposed by the Board for an initial period of two years only, although the Board had set no such limit, but only recommended a fresh enquiry at the end of seven years. As regards the bounty on superphosphates, the Government advanced the argument that it was an unusual step to subsidise an industry which had not yet come into existence, but promised further expert examination of the question,—a promise which has remained unfulfilled to this day, like so many other promises recklessly made if not temporised on the spur of the moment. The Government also differed from the Board on the question of freight reductions, which they considered wrong in principle, on the ground that "railway rates should be fixed purely on the basis of commercial principles and not with a view to subsidising industries."[9] It will be seen that the Government reiterated stale arguments, which were amply answered by the Board in their very able *Report*, and, although the proposals were quite moderate and sensible, they treated them with scant courtesy.

After considerable hesitation and delay, finally the Heavy Chemical Industry (Protection) Act was passed on the 1st October 1931, which provided, except in the case of Magnesium Chloride (for which the period was longer, up to the

[9] B. N. Adarkar, *History of Indian Tariff*, p. 63.

31st March 1939), for protection for 18 months only, *i.e.*, up to the 31st March 1933 only. What was much more serious, when the Act expired in 1933, the duties were allowed to lapse, without any valid reasons whatsoever. In the revised schedule, the Government added a proviso that none of the protected chemicals would pay a duty lower than the duty which would be charged if they were included in Section V of the Tariff Schedule, *i.e.*, the basic duty of 25 per cent *ad valorem*. This Schedule was revised under the Indo-British Trade Agreements, and the present position is that most of the heavy chemicals are subject to revenue duties of 25 to 30 per cent, with preferential duties of 20 and 15 per cent, in some cases, on chemicals imported from the United Kingdom and the British Colonies. Under the scheme of preference within protection, therefore, the Imperial Chemicals Ltd., have been able to secure effective protection against their competitors abroad, while the growth of the Indian heavy chemical industry is stunted for ever. It has been a deplorable neglect on the part of the Government to ignore even the modest proposals of the Tariff Board and foist upon India preference instead of protection, at the expense of the delicate nurseling of the indigenous industry which is left to take care of itself. It is high time that the Government sanctioned a fresh enquiry into the question of heavy chemicals, and enabled the country to depend upon indigenous resources for the key products of the industry without which a comprehensive industrial progress of the country is impossible. In the new order of things created by the emergency of war, India, by virtue of her geographical location, is now called upon not only to satisfy her own requirements but also those of others who are her neighbours and whose political and economic integrity are matters of concern to the Empire as a whole. The Roger Mission, now engaged in investigating problems of war supplies, will no doubt be impressed, if not shocked, by the utter neglect of this key industry and would note what a serious handicap this has been not only to India but to the Empire. It is to be hoped that, at least as a result of the findings of this Mission, the Government will be awakened to their responsibilities in this matter. For the matter of that, the heavy chemical industry in India is

still an infant and if even the restricted policy of Discriminating Protection is to be adopted here, it is only just that the claims of the industry should be reconsidered in the light of current developments.

CHAPTER XIII

INDUSTRIES DENIED PROTECTION—III

OIL AND COAL

In this chapter it is intended to discuss the cases of the two fuel industries of Oil and Coal, which applied for protection in 1928 and 1925 respectively. In both cases, there is no longer any reason why protection should be granted now and, therefore, their consideration here is mainly of historical interest, as throwing light on the working of the Tariff Board on the one hand and (in the case of Oil) on the methods sometimes adopted for securing protection for purely sectional gains on the other. The two industries provide a parallel in yet another respect: on both occasions, the Tariff Board was sharply divided and there were majority and minority reports; and curiously enough both the minority and majority agreed that there was no case for protective duties, arriving at this conclusion through different premises and arguments.

I

Oil

The production of petroleum in India is at present confined to two areas, namely, the Attock District of the Punjab and Assam, while by far the most important petroliferous area in the East is in Burma, which produces more than nine-tenths of the total petroleum produced in India and Burma. At the time of the Tariff Board enquiry, the Indian and Burman companies fell into two independent groups, one comprising the Burmah Oil Company, the Assam Oil Company, the Rangoon Oil Company and the British Burmah Petroleum Company, the other the Indo-Burma Petroleum Company and the Hessford Development Syndicate. The

Attock Oil Company occupied an intermediate position having the same managing agents as the Indo-Burma Petroleum Company but utilising the marketing agency of the Burmah Oil Company group. In 1928, the Government of India received representations from these companies asking for protection against the injury inflicted on them by the kerosene price war then in progress in India between the Standard Oil Company of New York and the Royal Dutch Shell Group. The immediate cause of the price war was stated to be the purchase by the Standard Oil Company from the Soviet Government of Russia of kerosene which, as the Royal Dutch Shell Group claimed, belonged wholly or partially to them. The companies stated that as a result of the price war, kerosene was being sold in India at prices well below world parity, thus causing losses to them. The Government, therefore, referred the matter for urgent consideration by the Tariff Board and the latter were asked: (*i*) to determine what price for kerosene should be taken to be equivalent to world parity at Indian ports, and the extent to which current prices in India were below that level, (*ii*) to report whether it was in the national interest that protection against the dumping of imported kerosene should be given and if so in what form and for what period, and (*iii*) to report whether it was likely that the price war would extend to petrol, what the consequences to the Indian producers were likely to be if it did and in that case what measures they would recommend.

As regards the origin of the oil war, the facts were as follows. The applicants stated that the war originated with purchase of what they called "stolen" oil by the Standard Oil Company from the Soviet Government. The oil was "stolen" in the sense that it was derived from properties originally belonging to the Royal Dutch Shell Group who were dispossessed by the Russian Government. This Group protested against the action of the Standard Oil Company and, in the event of such oil being landed in India, threatened to initiate a price war. Prior to this the Burmah Oil Company, which worked in close co-operation with the Royal Dutch Shell Group had prevented the Standard Oil Company from selling oil at prices lower than those prevalent at the source, *viz.*, the American Gulf, by entering into selling

arrangements with all companies operating in close proximity of the Indian market. But the purchase of the Russian oil properties changed the situation. The oil was situated near Bantoum from where the freight to India was 11 annas per ton as against Re. 1-3-0 from American Gulf ports. The aim of the price war, so far as the Royal Dutch Shell Group and the Burmah Oil Company were concerned, was to force the Standard Oil Company to recognise the arrangements of the Indian oil "ring" or the "kerosene pool," which had controlled prices all along. The Burmah Oil Company Group were assured by the Asiatic Petroleum Company, the subsidiary of the Royal Dutch Shell Group in India, that they would be reimbursed by the latter Group for any losses incurred by them as a result of the price war. Both the majority and minority reports of the Tariff Board laid stress on this fact. The majority said: "We believe that the Burmah Oil Company consented to and actively supported the price war initiated by the Royal Dutch Shell Group, while the associated Indian companies under their arrangements with the Burma Oil Company were compelled to follow the lead given by the premier Indian company."[1] The minority, consisting of the President[2], went further and stated:[3]

"The public has been given to understand and a determined attempt has been made to persuade the Government that the immediate cause of the kerosene rate war was the indignation of the Royal Dutch Shell Group at the immoral conduct of the Standard Oil Company of New York......No evidence of any kind has been placed before the Board to support the allegation that the Standard Oil Company's purchase of Russian Oil was at uneconomic prices......There was no reasonable ground for complaint so long as the Standard Oil Company made no attempt to use that oil to enlarge its share of the Indian market by selling it below world parity prices...In view of the events which preceded the launching of the rate war in September 1927 and of the understanding existing between the main participants it is difficult not to find the principals of the applicant Companies—I expect the Indo-Burma Petroleum Company to whom the Asiatic Petroleum Company's promise of compensation does not refer—guilty of a lack of candour

[1] *Report of the Tariff Board on Oil*, p. 15.
[2] Mr. (now Sir) P. P. Ginwalla.
[3] *Ibid.*, pp. 60-62.

amounting to almost deliberate *mala fides*......The machinery of this Board is intended to be used upon the instructions of the Government of India for the purpose of enquiring into *bona fide* applications by indigenous industries for protection against foreign companies......Though compensation had been promised by the principal belligerent, an application for protection was put in as if the whole of the indigenous industry was suffering serious damage through the rate war. This failure to disclose material facts might alone have justified a summary dismissal of the application in the interest of public discipline."

It became quite obvious to the Board that the applicant Companies (excepting the Indo-Burma Petroleum Company) were a party to the rate war and as such were going to be compensated for their losses by the principal beneficiaries of any possible success in the war. Nay, so far as the Burma Oil Company was concerned, it was actively interested both for its own sake and that of the Anglo-Persian Oil Company, which wanted a substantial share in the Indian trade and which was financially allied to it. Thus, it was evident that protection was sought for financing the price war itself and for shifting the burden of fighting the Standard Oil Company on to the shoulders of the Indian consumer of kerosene. In this connection it is noteworthy that in one of its representations to the Tariff Board, the Burmah Oil Company claimed that the "poor consumer of kerosene" was for many years past benefited by the policy of the Kerosene Pool and quoted their Chairman to the effect that this benefit between 1919 and 1923 alone amounted to £50,000,000.[4] The President in his minority report exposed the fallacious nature of this claim, which was made in the support of protection, by comparing the prices of the Kerosene Pool with the American parity prices in 1927, proving conclusively that the prices of the Pool were above the latter, on other occasions, and that the lower prices charged were for inferior kerosene only, for which the price was quite adequate. It was thus that the benefactors of the "poor Indian consumer" felt that if protection could be obtained from the Government at the expense of the "poor Indian consumer," it would serve as a second line of defence against the

[4] *Ibid.*, p. 81.

Standard Oil Company which can thus be worsted and permanently banished from the Indian market.

However, the majority of the Board admitted that there was "dumping" and that the fact of the sale of kerosene in India below "world parity" was established. They took the equivalent of the world parity at Indian ports to mean not any fair selling price as such, but the price of imported kerosene with reference to which the price of kerosene in India would be fixed ex-main installation in normal conditions. On this interpretation, they considered that the price should be determined by the f.o.b. American Gulf price (Rs. 1-4-0) *plus* freight from Gulf ports to India and incidental charges such as profit, storage, duty etc. On this basis, they arrived at Rs. 4-8-4 per unit of 8 Imperial gallons in bulk as the world parity price in Indian ports. At the same time, the average price obtained by the Indian companies ex-installation was found to be Rs. 3-10-9 per unit of 8 Imperial gallons in bulk. Thus, the majority found that "dumping" was established. However, this did not mean that the applicant companies would be seriously affected. According to the majority, the price war was not detrimental to Indian interests.

> "Our general conclusion", they said,[5] "is that the present price war in kerosene, while of immediate benefit to the consumer, will neither adversely affect Government revenue, nor seriously prejudice the future production of oil in India. On the other hand, the economic pressure resulting therefrom is likely to reduce the costs of production and lead to better utilisation and conservation of the mineral resources of the country. The absorption of one or more of the smaller companies by the larger is not necessarily an evil since it would probably lead to a more methodical and scientific system of drilling with better recovery of petrol and better utilisation of gas, a source of power. We are, therefore, of opinion that dumping in the sense used in our terms of reference is not contrary to the national interest."

The minority, the President, did not agree with the finding that there was dumping in any sense. In particular, he was not satisfied with the evidence regarding the Gulf

[5] *Ibid.*, p. 46.

prices and incidental charges. There was no posted bulk price f.o.b. Gulf ports which could be taken as the price at which transactions were taking place under free competitive conditions and the variations in the prices of large-scale dealings were so great that it was impossible to fix any definite price as such. Evidence as regards freights also was unsatisfactory and the item represented a hypothetical expenditure only, as freights varied considerably from time to time. Not only this, but the current prices of the Kerosene Pool were themselves indefinite. The Burmah Shell Group sold nearly 95 per cent of the indigenous kerosene, the main outsider being the Indo-Burma Petroleum Company. The price war was initiated by the Asiatic Petroleum Company with the full knowledge and consent of and in collusion with the Indian group, and thus the so-called current prices were artificially forced down by them. The object of the Burmah Shell was "not to realise the best price that can be secured but to regulate prices to suit its purpose which is to compel the Standard Oil Company to come to terms." One of these terms was the surrender by the latter of two-thirds of its contract with the Soviet to the Royal Dutch Shell and the Anglo-Persian Oil Company, to be divided equally between the two latter. Thus, according to the President, there was no such thing as "current prices" in the ordinary sense, for they were what the Burmah Shell made them for the time being. What was more important was the fact that the Standard Oil Company had never lowered its prices, except when it was forced to follow the cuts made by the indigenous industry jointly with the Asiatic Petroleum Company. For these reasons, the President held that dumping was not proved.

As regards petrol, both the majority and the minority agreed that there was no immediate necessity of any protective or other measures, as there was likelihood of foreign imports of petrol for a couple of years more at least. In the course of his comments on the petrol prices charged by the Indian companies, the President drew pointed attention to an important fact disclosed in the enquiry. There was evidence, he said, which suggested *prima facie* that petroleum products were being sold in India at exorbitant prices and the consumer was being mulcted to the tune of several crores per annum.

The total extra burden of this he estimated at about Rs. 5 crores per annum. This also accounted for the high dividends (ranging from 15 to 25 per cent) consistently paid by the Burma Oil Company Group to their shareholders, who were mostly foreigners. Oil business in Burma and India has been all along a matter of monopoly which is controlled by nothing but the rules of profiteering set to themselves by the Companies concerned. The object of the indigenous companies in 1927-8 was, therefore, to capture the entire Indian market and exclude all possible competition including that from America. And, for this, the help of the Government or rather the ultimate consumer was being sought for the noble sacrifice of being mulcted more by the very same monopolists !

Both the majority as well as the minority of the Board rejected the application for protection. The Government of India, agreeing with the Board, declined to take any action to protect the "indigenous" industry.

II

Coal

The importance of the coal industry to India is beyond dispute; for coal is by every criterion a basic industry. The coal industry in India cannot compare with cotton or jute, but the dependence upon it of a large number of modern industries can be best illustrated by studying the figures of coal consumption in India:

TABLE I

Consumption of Coal

(In tons 000)

	1936	1935	1934	1932
Railways	7,482	7,293	7,126	6,683
Port Trusts	127	135	145	143
Bunker Coal	990	1,020	944	967
Admiralty etc.	27	29	28	30
Inland Steamers	567	551	577	586
Jute mills	754	653	658	656
Cotton mills	1,697	1,331	1,600	1,547
Iron and Steel	5,681	5,583	4,657	4,092
Tea gardens	191	186	189	187
Collieries and wastage	1,198	1,220	1,169	1,979
Brick and tiles manufacture ...	858	792	709	644
Paper mills	188	171	249	162
Miscellaneous	2,759	3,712	3,788	1,778
Total ...	22,510	22,872	21,799	19,428

It will be seen from the above table that the chief consumers (apart from the collieries themselves) are, in their order of importance, the railways, the iron and steel industry, cotton mills, bunker, and brick and tile manufacture. It will also be clear that the fundamental condition of a large-scale coal industry, viz., a vast and wide-spread industrialisation, is woefully lacking and, barring cotton and iron and steel, the demand on this account is not very significant. The railways have been the chief precursor and cause of the rise of the coal industry in India. As will be seen from the figures below, the growth of the coal industry dates from the middle of the last century and although coal production increased at a fairly rapid pace, in recent years it has reached a stage of stagnancy owing to various causes.

TABLE II

Production at the end of each decade

	Tons
1880	1,019,000
1890	2,168,000
1900	6,119,000
1910	12,047,000
1920	17,962,000
1930	23,803,000
1937	23,479,000

Prior to the reference of the case of the coal industry to the Tariff Board in 1926, the position was adversely affected by a number of factors which threatened its collapse. (*i*) In the first place, the railways, which form the chief consumers of Indian coal, had begun to own and operate their own coal mines, to safeguard themselves against any price manipulation by the colliery companies. The railways are now competent to supply all their own requirements of coal, but actually they supply only a part of their demand and a part is purchased by them from the market. They generally step into the market, when the prices are low, and depend upon their own resources when the market prices are high. Thus, although from a certain standpoint they help the stabilisation of prices, they have made themselves the arbiters of the price of coal at the expense of the private collieries. It has been the complaint of the industry that owing to the possession of coal mines, the railways are able to exploit the weakness of the coal industry and to influence not only the railway purchases but the general coal business as well. (*ii*) In the second place, the electrification of the suburban railways of Bombay and the greater reliance placed by the Bombay cotton mill industry on electricity and oil for motive power have led to a diminution of the prospects of the coal industry in Bombay. Similarly, the substitution of oil for coal on the section of the North Western Railway terminating at Karachi has led to the same result, in Karachi where coal is mainly used now for bunkering purposes. (*iii*) Thirdly, at the time of the enquiry, the export position of the industry

was very precarious. Exports of coal began to be of importance only in the five years ending 1900 when they averaged 30,500 tons annually. For the pre-war period, the peak was reached in 1906 when the exports stood at 1,003,000 tons, and for the decade ending 1915, the annual average was about three quarters of a million tons. The war years affected the exports due to shortage of shipping tonnage. In 1918, the lowest point was touched with only 74,000 tons. The end of the war, however, helped a rapid recovery of exports and in 1920, exports again mounted up to 1,224,750 tons. These were the years during which there was a considerable congestion on the railways owing to paucity of railway wagons. The coal exports for some time monopolised all the available wagons and the movement of other goods was greatly hampered. In July 1920, therefore, the Government of India, following the example of the United Kingdom and South Africa, decided to prohibit the export of coal from India except under licence and to refuse the preference which had till then been given by the railways to bunker coal for Indian ports. The object of the latter measure was to economise wagons by diverting bunker coal intended for Bombay, Madras or Karachi from the all-rail route to that which has been followed before the war, when coal had been sent by rail to the Calcutta docks and thence by coasting steamers to its destination. Later on, a rationing scheme was drawn up and supplies of Indian coal were allowed only to important bunkering ports in the vicinity of India.[6] Partly owing to the cutting off of the foreign markets, coal raisings were reduced. This led the Government to suppose that the existing restrictions were not enough. Therefore, they prohibited the exports to certain foreign ports like Labuan and Singapore, while limited export was permitted to Colombo and even bunkering coal was reduced to the minimum necessary for enabling the steamers to reach the next nearest source of bunker coal. The restrictions were not finally removed till January 1923. In the meantime, sufficient harm was done to the export trade in coal by these

[6] Cf. *Indian Coal Committee Report*, 1925, p. 7.

overzealous measures adopted by the Government.

The following figures tell their own tale:

TABLE III

The Decline of Exports

	Tons
1920	1,224,758
1921	275,571
1922	77,111
1923	136,575
1924	206,483
1925	216,090

(*iv*) The inevitable result of Government interference was that Indian coal was ousted from India's erstwhile foreign markets, viz., Ceylon, the Straits Settlements (including Labuan), Hongkong, and Aden. It appears that South Africa which had at an early stage put restrictions on exports of coal, thus setting a model of policy for the Government of India, latterly actively encouraged shipments of coal, as a result of the recommendations of the Coal Commission of 1920 appointed in South Africa, with a view to capturing the overseas markets.[7] In South Africa, the coal trade and the Government work in the closest co-operation. The railways are State-owned and bounties are given to the coal trade in the shape of rebates in the railway freights. Thus on the railways, there is one rate for the coal meant for internal trade, another for coal meant for bunkering purposes, and a third one for coal exported to foreign countries, like India, Ceylon, Sumatra etc. Prior to the Tariff Board enquiry, owing to the Government interference with the export trade, on the one hand, and the competition of bounty-fed South African coal on the other, the Indian coal industry found itself face to face with disaster. The competition of South African coal was found to be particularly serious in Bombay and Karachi. The imports of South African coal

[7] *Ibid.*, p. 9.

led to a considerable agitation, and the Legislative Assembly passed a resolution in March 1924 recommending to the Government that a countervailing duty should be imposed on the bounty-fed South African coal. At the same time the coal trade applied for protection. However, the Government set up a special Committee (later known as the Indian Coal Committee) under the chairmanship of Mr. (afterwards Sir) F. Noyce, consisting of experts and representatives of the coal trade to thresh out the technical aspects of the question, so that its report might serve as basis for the subsequent Tariff Board enquiry. The findings of this Committee were mainly as follows: (1) A review of the position of Indian coal in overseas ports showed that the problem could be stated in two words: "quality" and "price." As regards quality, the best Indian coal could compete with any foreign coal, but care should be taken to export only the best coal. Though the restrictions placed during and after the war had much to do with the ultimate loss of the foreign markets, there had been even from earlier times a decided dissatisfaction amongst the foreign consumers with the quality of Indian coal and, even if no restrictions were imposed, India would in any case have been superseded by her rivals in Colombo, Singapore and other ports. (2) The railways were faced with difficulties owing to the congested state of the coalfields and a regular and adequate wagon supply throughout the year was essential, especially on the Bengal Nagpur Railway. (3) The Committee went into the various questions of costs of raising coal, railway freights, port charges and shipping freights and made a few suggestions in this connection, especially for the avoidance of stacking of coal. If greater care were devoted to the raising, handling and selection of coal for foreign markets, Indian coals could very well stand the competition of foreign coal. The Committee accordingly recommended the appointment of a Coal Grading Board to classify the different seams at Indian collieries, to prepare a grading list and grant certificates of shipment. These recommendations of the Indian Coal Committee were given legislative effect in 1925. As a special incentive to the collieries, a rebate on railway freights, and a reduction of port dues and of shipment of cargo coal are given to

collieries included in the grading list by the Grading Board. There is no doubt that the institution of the Grading Board has led to much reform in the quality of coal exported and has enabled the coal trade in recent years to regain its foothold in the foreign markets.

The question of protection to the coal industry was referred to the Tariff Board on the 30th September 1925 and the Board concluded its enquiry in 1926. The members of the Board unanimously decided against a protective duty on imported coal, although there was difference of opinion as to the levy of a countervailing duty of South African coal. In the view of the majority, the industry while it satisfied the first condition as to natural advantages, failed to satisfy the second condition in that future development of the industry did not depend upon protection. The difficulties of the industry, according to them, arose not from foreign competition, but principally from over-development during the period of high prices. The majority, moreover, were against any measure, however small, which would raise the cost of fuel to the coal-using industries. On these grounds, the majority rejected the application for protection and as regards a countervailing duty on South African coal, they did not approve of the measure, stating that the bounty alone was not responsible for South African imports, that far from enabling Indian coal to recover its lost position in Ceylon or in the Far East, a countervailing duty would provoke retaliatory measures, and that South African coal imports were almost negligible as compared to the total Indian production.[8]

Mr. (now Sir) P. P. Ginwalla, in his minority report, dissenting from his colleagues, pointed out that a *protective* duty on foreign coal, especially on coal from England and Wales was neither necessary nor justifiable, as it was of a different grade and quality altogether and therefore did not compete with Indian coal. On the other hand, coal imports from Japan and Australia were negligible. However, the freight concessions of the South African railways were defi-

[8] *Report of Tariff Board on Coal* (Majority Report), pp. 65 ff.

nitely aimed at developing the export trade and, in so far as such bounty-fed coal was competing with Indian coal in the home market, it was desirable that the handicap on Indian coal should be nullified by a *countervailing* duty of Rs. 1-8-0 per ton on South African coal.

The Government accepted the unanimous decision of the Board that that there was no occasion for a protective duty on imported coal. As regards the question of imposing a countervailing duty on South African coal, they accepted the decision of the majority. It was unfortunate that the Government should have rejected the proposal of a countervailing duty made by the Legislative Assembly and by the minority of the Tariff Board. The Fiscal Commission in their Report had clearly suggested that "protection should be afforded against any deliberate action of a foreign State tending to stimulate its exports at the expense of any Indian industry,"[9] and, towards this end, had recommended the imposition of countervailing duties. The distant fear of possible retaliation was somewhat far-fetched. The alternative was for the Government to grant equivalent concessions to the coal trade similar to those granted in South Africa, viz., reduction or rebates on the freights (apart from the very insufficient concession granted to graded coal) on coal destined for the Bombay and Karachi markets and for the neutral markets where South African competition was keen. Representations in this connection have been made from time to time by the commercial bodies, but so far no action has been taken by the Government. In the meanwhile, after a continuous decline, the export trade has been recently showing some signs of recovery mainly owing to the Sino-Japanese war and cessation of European exports to the eastern markets.

The expansion that has taken place in the coal export trade recently can be seen from the following figures :—

[9] Cf. *Report of the Fiscal Commission*, para 141.

TABLE IV

Exports of Coal (1926-39)

Year	Tons	Year	Tons
1926	617,573	1933	426,176
1927	576,167	1934	330,233
1928	626,340	1935	217,584
1929	726,610	1936	195,836
1930	461,188	1937	856,095
1931	441,249	1938	1,321,352
1932	519,483	1939	1,671,097

The recent developments in the coal industry are not of much significance from the fiscal standpoint, although they have been of great importance to the technical and organisational aspects of the industry itself. In 1929, a Conference of colliery-owners was held in Calcutta to fix minimum selling prices for coal of various grades. But as the arrangements did not apply to the entire coal trade, they fizzled out very soon. Another abortive attempt to regulate conditions in the coal market was made in 1933, when the three important coal associations, viz., the Indian Mining Association, the Indian Mining Federation, and the Colliery Owners' Association prepared a Restriction Scheme extending over three years and applicable to all collieries in the shape of quotas being enforced by control of wagons available. The Government did not accept the scheme, thus once again letting down the industry. Still more recently, attention of the Government and the industry has been directed to the problems of underground safety and of conservation of coal resources. In view of the warning uttered by Sir Lewis Fermor, the Director-General of the Geological Survey, in his annual report, regarding the prospect of shortage of good coking coal within a hundred years, the subjects of safety and conservation of coal were referred to a Committee under the chairmanship of Mr. L. B. Burrows. The Committee suggested legal measures for the conservation of coal and the provision of a cess for the expense involved in the

general adoption of sand-stowing. A minority of the Committee even suggested the nationalisation of the coal mines after compensating the present owners. The Committee's view was that the average waste of coal in mines was to the extent of 50 per cent, of which the greater part could be avoided by sand-stowing. The measures of conservation were suggested on grounds of public policy apart from their importance to the future of iron and steel industry which vitally needs coal as fuel.[10] The recommendations of the Committee were embodied in the amendments to the Indian Mines Act and in the Sand-stowing Act of 1938, which provided for the establishment of a Statutory Board to collect the cess on coal to be employed in sand-stowing measures. Initially, the coal interests resisted the Committee as well as the measures proposed by them, but recently the opposition seems to have died down, mainly owing to the partial improvement in the position of the export trade.

[10] Cf. Report of the Coal Mining Committee, 1937, Vol. I.

CHAPTER XIV

INDUSTRIES DENIED PROTECTION—IV

GLASS

I

Introductory

The case of the glass industry, which was refused protection in spite of the unanimous recommendation of the Tariff Board, is somewhat on par with that of heavy chemicals. An industry like glass, having a majority of the advantages laid down by the Fiscal Commission as conditions precedent to protection, should have been treated better by the Government than it was. The only ground for refusing protection was, as we shall see, not very convincing and was amply answered by the Tariff Board itself in its report. The Tariff Board had clearly stated that the dependence of the industry on foreign imports in respect of a single material like soda ash was not to be considered as a bar to protection. However the Government, in spite of the convincing arguments set forth by the Tariff Board, thought it fit to refuse protection, and, what is still more remarkable, announced this decision full three years after the report was presented.[1] There is hardly any doubt that the attitude of the Government was rather lukewarm towards the industry and, quite naturally there was very strong criticism on the part of the public of the Government's action in thus whittling down the policy of discriminating protection.

[1] It must be noted that the industry had originally applied for protection in 1926, but the application was turned down by the Government without reference to the Tariff Board. Cf. *Report of Tariff Board on Glass*, 1932, pp. 30 and 53.

The glass industry in India is an ancient one, and as Dr. C. S. Fox of the Geological Survey of India observes "the first Indian references to glass are in the *Mahavamsa* the chronicles of the Sinhalese Kings (B. C. 306), when glass mirrors were carried in procession." However, he states that although decorative glass was made in Delhi during the 17th century also, the industry does not appear ever to have approached the proportions attained by it during the war years 1914-18. Thus it is clear the industry, in its modern form, was largely born during the last war. Of course, throughout the 19th century numerous experiments continued to be made in the production of glass, some successful and others not. Most of the factories in 1918 were either manufacturing glass for bangles as at Ferozabad, or for lampware and bottles and carboys. In 1918 it was estimated that about 20 factories were at work, but by the time of the Tariff Board enquiry nearly 59 were found to be working throughout India.

II

The Raw Materials

The Tariff Board considered the case of the industry in the light of the triple formula. As regards the first condition they stated that the Indian industry was largely of the soda-lime variety and for its raw material depended principally on silica sand, boric oxide, soda ash and saltcake, and lime. As regards sand, the Indian sand of the best variety, obtainable in the United Provinces near Bargarh and Naini, was found to compare favourably with European and American sands, and though inferior varieties were not so comparable, they were quite suitable for the production of inferior glass. Borax, which is the basis of boric oxide, is imported into India from Tibet and thus, though not actually a product of India, is available so easily and in such large quantities that the very nearness of Tibet was considered by the Tariff Board as a natural advantage of the Indian glass industry. An important basic oxide needed in the manufacture of glass is calcium oxide which gives it stability and resistance. Calcium oxide

may be introduced into glass mixtures either in the form of limestone, or in that of quick lime, obtained by applying strong heat to limestone, or in that of slaked lime which is obtained by bringing quick lime into contact with water. Now, supplies of limestone are available in abundant quantities almost anywhere in India, but in particular Katni and adjacent places in Central India contain supplies which are said to be "practically inexhaustible." The price too is low, ranging from 1½ annas to 6½ annas per maund. Other subsidiary materials like zinc oxide, saltpetre, zinc dust, and colouring materials are partly available in India and have partly to be imported, but their importance in the final costs being low, there is no particular disadvantage resulting from the fact that some of them have to be imported. Similarly as regards refractory materials, which are required for the furnace in which the "batch" of glass has to be melted. It is of great importance that the refractory materials should be available to the glass industry in suitable quantities, for on these depend in a large measure the life of the furnace, the life of the pots, the quality of the glass produced and the consumption of fuel. The chief materials in this connection are fireclays or silica, bauxite, sillimanite and cyanite. The Indian fireclays compare very favourably with the English and German clays and reach the requisite chemical and physical standards. As regards cyanite and sillimanite, their presence in India places the country in an exceptionally advantageous position for the development of what are called "super-refractories," and the deposits of these materials in Singhbhum, Assam and the Rewa State may enable India to take a leading part in the production of this commodity, incidentally benefiting the glass industry as well. Finally, as regards fuel, the availability of cheap coal in abundant quantities constitutes a distinct advantage for the glass industry. In its lower calorific value and higher ash content, Indian coal no doubt suffers by comparison with European coal, but so far as most of the glass works in India are concerned these disadvantages are outweighed by the lower cost and lower moisture content of Indian coal.

Thus, it is clear that for a majority of the materials used, India was as well placed as or even better placed than some of

her competitors. But controversy arose in respect of one important material, viz., soda ash, which is largely used by the glass manufacturers in India as a basic oxide. Soda ash does not require a high temperature, unlike saltcake (the other form of sodium oxide), and consequently makes for economy of fuel. While saltcake is not so expensive as soda ash, it gives only 43.7 per cent of sodium oxide as compared to 58.5 per cent given by soda ash. Thus to produce a stated quantity of sodium oxide, it is necessary to use 33 per cent more saltcake than soda ash, and any saving due to the lower price of saltcake is more than counterbalanced by the greater quantity required for its use. Soda ash, therefore, is an important ingredient of glass, but the exact degree of its importance in the final cost of producing glass is a matter of great significance. As both in 1927 as well as in 1935, the Government of India rejected the claim of the glass industry on the ground that the industry had to rely on foreign imports for its supplies of this vital material viz. soda ash, and that, therefore, it failed to satisfy the first condition of the triple formula, we shall examine this question somewhat thoroughly in the next section.

III

The Soda Ash Question

As stated in the previous section, soda ash in a finished condition was not manufactured in India at the time of the Tariff Board enquiry. But deposits of sodium carbonate and sodium sulphate occur in different parts of the country. Crude sodium carbonate, contaminated with varying amounts of common salt and sodium sulphate, is found as an efflorescence in certain parts of India in the hot weather. Apart from alkaline earth or *reh*, which is used in India for making crude glass, there are considerable deposits of sodium carbonate in Sind and in the Khairpur State, occurring in the basins of certain lakes (known as dhands) and similar deposits have been found in Berar and Rajputana. An important source of sodium is the salt in the brine wells of the Rann of Cutch and in the Sambhar Lake. Between 1928 and 1934,

the Sri Shakti Alkali Works, established by the Dhrangadhra State at Dhrangadhra in Kathiwar, produced substantial quantities of soda ash, but had to be temporarily closed down owing to losses. It is understood that the factory is being remodelled and reorganised, and it is hoped that it will eventually provide a reliable source of good soda ash at competitive prices. The Imperial Chemical Industries (India) Ltd., will, according to available report, begin production of soda ash and allied materials in the Punjab and Bengal, and the Tata Chemical Company Ltd. also has established a factory at Mithapur near Port Okha for production of alkalis, fertilisers and other by-products. The Tatas hope to begin operations in the near future and make all necessary chemicals available to Indian manufacturers of textiles, paper glass and soap. Thus, it will be seen that the soda ash problem arises largely from the non-existence of the alkali industry in India and *not from the lack of any basic materials from which soda ash itself could be produced.* In brief, anybody who has the vision could see that that is really no reason why the glass industry should have to wait till the momentum of industrialisation has established other industries for which adequate opportunities of production exist in India. To refuse protection to the glass industry on the ground that some other industry did not exist was in reality begging the question of future developments which are bound to be cumulative in their process. It was the result of adopting a formula of protection which is myopic and utterly unimaginative in its content as well as operation.

Most of the glass factories, at present, obtain their supplies of soda ash from abroad, principally from the Imperial Chemical Industries Ltd. who import their own manufactures and also soda ash obtained from natural deposits at Magadi in East Africa. The total quantity and the average value per cwt. of the imports of soda ash can be studied in the following figures:

TABLE I

Imports and Prices of Soda Ash

Year	Quantity cwt.	Average value per cwt. ex-duty Rs.
1926-27	990,178	5.87
1927-28	1,061,185	5.85
1928-29	1,076,634	5.80
1929-30	1,204,059	5.90
1930-31	1,052,164	6.13
...	...	...
...	...	...
1936-37	1,628,048	4.01
1937-38	1,226,730	4.10
1938-39	1,554,881	4.65

The importance of the United Kingdom as a supplier of soda ash can be gauged from the fact that out of the total imports as noted above, during 1936-37, she imported 1,444,028 cwts., during 1937-38, 1,060,749 cwts., and during 1938-39, 1,385,602 cwts., i.e., on the average between 85 and 90 per cent of the total imports during the three years. Full data are not available as to what part of these imports is used in the glass industry. The Tariff Board in 1931 calculated that assuming a total production of 20,000 tons of glassware a year, the industry would require about 100,000 cwts. or 1/10th of the total imports. The total value of glass manufactured in India and that of glass imported from abroad can be seen from the following table:

TABLE II

Value of glassware manufactured in India and imported from abroad

(1929-30)

	Imports Rs. lakhs	Indian production Rs. lakhs
Bangles	85.23	115.00
Beads and false pearls	30.61	...
Bottles etc.	39.49	6.50
Lampware	21.08	16.00
Scientific glassware	1.34	...
Sheet and Plate	30.97	2.50
Tableware	13.29	...
Other glassware	29.92	...
Total ...	251.93	140.00

The estimate for internal production in the above table was made by the Tariff Board in 1932. No doubt since then the production must have expanded considerably. However, for our purposes, what matters is the comparison of the imports with local production and more particularly the assessment of the importance of soda ash which may be said to arise from the above figures for internal production. Thus, if only 100,000 cwts. of soda ash was used in glass manufacture in India, it would follow that the total cost of soda ash used would be Rs. 613,000 (ex-duty) and about Rs. 10 lakhs (including duty). As a majority of the glass producers use soda ash, and as the total value of glassware produced in India amounted to Rs. 140 lakhs in 1929-30, the value of soda ash (including duty) in the final products amounted only to 7 per cent. Even assuming that some producers used other materials like saltcake, the proportion cannot be greater than 10 per cent in any case.[2] Thus, in the first place, we must note that the preponderance of soda ash which was imagined by the Government on the basis of

[2] Excluding duty it would be still less, between $4\frac{1}{2}$ to 6 per cent.

other calculations was fallacious and that the so-called disadvantage of the industry was in respect of a material which in the final analysis was not so vital as might appear.

The Tariff Board made several calculations estimating the importance of soda ash in the production of glass. The first approximation was on the quantitative basis. Judged by the quantity of the materials used, the Board said, soda ash did not exceed 25 per cent of the total quantity of glass according to the practice followed in the more efficient factories in India. However, it was obvious it was not a question so much of the quantity but of the value of the materials. The cost of soda ash is in every country the highest as compared to those of the other materials, as may be seen from the following table showing the proportionate cost of each material:

TABLE III

The Percentage Cost of Materials used

	Indian	English	Belgian	German
Sand	17	24	9	13
Soda Ash	65	50	74	71
Salt Cake	12	8	13	8
Limestone	6	18	4	8
Total ...	100	100	100	100

Thus put the predominance of soda ash as a material looks quite large, but the Board further pointed out that the location of the factory influenced the cost. Thus a factory near Bombay incurred only 30 per cent of the cost on soda ash, one in Calcutta about 40 per cent, while one in U. P. as much as 70 to 75 per cent, and of course, the freight advantage enjoyed by the factories in Bombay and Calcutta was negatived by other disadvantages. The Board, therefore, rightly concluded that the "percentage cost of soda ash is a misleading test." It gave different results for different calculations. Thus, as compared to other materials, power and fuel, and wages and salaries, the percentage cost of soda ash and salt cake was as under in sheet glass factories:

TABLE IV

Percentage of Total Primary Costs

	Indian	Belgian	American	German
Soda ash and salt cake ...	28	20	15	16
Other materials	22	27	22	20
Power and fuel	33	21	13	24
Wages and salaries ...	17	32	50	40
	100	100	100	100

Similarly for blown ware, the Indian figures gave higher percentages for soda ash in the case of India than in those of other countries. But what was the inference to be drawn from this? *It would be a statistical fallacy to try to prove anything by reference to mere percentages.* The percentage of the cost corresponding to soda ash was not due to any inherent defect in the Indian industry but due to the other costs, particularly wages, being extremely low, which factor must necessarily lead to swelling the percentages of the other items, i.e., if you are speaking in terms of percentages. In this connection, if we are speaking comparatively of different countries, it is the absolute cost of soda ash that matters and not the relative percentage cost, which is bound to be wholly misleading. Therefore, the only correct and legitimate process is to estimate the total costs in absolute terms for glassware and compare these with similar costs elsewhere. On the other hand, so far as the fact of soda ash imports is concerned, this becomes a disadvantage only if it is a predominant element in the Indian costs of manufacturing glass irrespective of any comparisons with other countries. Including not only the prime costs of manufacturing, but also normal profits, depreciation and marketing costs, soda ash plays a small part, viz., 7 to 10 per cent of the final cost, as was noted above. Hence, it follows that the Indian producer even if he could not obtain soda ash at all from inside the country he could get a margin of from 90 to 93 per cent of the total costs to improve his efficiency. If, however, soda ash were responsible for, say, more than 50 per cent of the final cost, the margin would be considerably less.

The Tariff Board, therefore, rightly stressed this aspect of the question, when they observed that "the proportion borne by the cost of soda ash to the total cost does not by itself afford a correct indication of its relative importance in the manufacture of glass in India and that in determining the position of the Indian industry as compared with that of other countries it is necessary to consider the extent to which the disadvantages in respect of soda ash are counter-balanced by advantages in other respects."[3] There was no doubt that the Indian industry enjoyed advantages in respect of supplies of cheap sand, fuel, labour and extent of market. Whether the sum-total of these advantages was sufficient to offset the disability resulting from imports of soda ash could only be determined correctly by a detailed examination of the present and future costs of the industry. "On this view of the case," the Board said, "we hold that the fact that the Indian glass industry is now dependent on imported soda ash does not invalidate the claim to protection, especially when there is a reasonable prospect that the manufacture of the material in India will be resumed almost immediately."

It is important to note that the Fiscal Commission in laying down their first condition, recognised that the relative importance of the natural advantages mentioned in it would vary according to the circumstances of each industry and that in examining the claim of an industry to protection it was essential to determine the relative importance of any natural advantages which might be lacking. It was impossible that every industry would enjoy all the advantages that could be possible. This was a condition which was impossible to realise even in the most advanced countries; nay, in fact, western countries themselves would fall very much short of the ideal set up by such an extreme test. Nor did the Fiscal Commission imagine that it would be possible to obtain such results in India. Hence, the Board rightly concluded that even if the industry was confined permanently to the use of imported soda ash, they "should still be hardly justified

[3] *Report on Glass*, 1932, p. 33.

in rejecting the claim to protection unless it was found that on the balance the industry did not possess sufficient natural advantages."[4]

IV

The Justification of Protection

Apart from the question of raw materials, the industry was fairly well placed as regards labour and the market. Most of the factories were situated in the United Provinces where labour is available in abundance at far lower rates than those obtainable in large industrial centres like Bombay or Calcutta. Another advantage was the existence at Firozabad of a special class of Muslims known as "Shishgars" or glass-makers, who had been engaged in the bangle industry for centuries, the art having been handed down from generation to generation. The Industrial Commission commented on certain defects which were then apparent in the labour employed in glass factories in India.[5] Sir Alfred Chatterton also repeated the same criticisms in his chapter on the glass industry in the Indian Munitions Board Handbook. It is true during the last war, there was a comparative scarcity of skilled labourers, especially glass-blowers, who had to be imported from Austria and Japan, but the position when the Board examined the case of the industry was quite different. In spite of the increase in the number of factories there were no complaints of shortage of labour and the industry had ceased to be at mercy of glass-blowers. Nor did it appear to the Board that the skill of the Indian glass-blower and artisans was so markedly inferior as to constitute a handicap on the industry. Most of the Austrians and Japanese from whom the industry had acquired its skill had disappeared and the machinery was being operated successfully without their assistance.

That the Indian market is one of the largest in the world so far as glass is concerned is obvious. In Table II above, figures for imports and Indian production have been given

[4] *Ibid.*, p. 30.
[5] Appendix E to their *Report*, para 7.

from which it can be seen that the total consumption, during 1929-30, was in the neighbourhood of Rs. 4 crores. The consumption of glassware must have gone up in recent years owing to the growth of population and the commercial and constructional uses of glass. Figures for imports of glass during the last three years (1936-39) are given in the table below:

TABLE V

Imports of Glass and Glassware

(In Rs. lakhs)

	1937	1938	1939
Bangles	27.83	26.32	21.53
Beads and false pearls	17.87	15.55	9.95
Bottles and phials	27.77	28.42	23.01
Lampware	7.03	5.35	4.55
Scientific glassware	1.77	1.86	1.34
Sheet and plate	26.36	22.54	20.83
Tableware	6.19	6.49	4.96
Other glassware	35.42	23.76	22.87
Total ...	150.26	130.31	109.06

It will be seen from the table above that in recent years imports have considerably diminished. This is no doubt due to the growth of the Indian glass industry, which has largely replaced foreign imports especially in the cheaper varieties of lampware, tableware, and bottles and phials. In regard to bangles, the Indian producers have generally done well, although for some years the competition of Japanese *reshmi* bangles was somewhat severe. Thus, while the imports of bangles stood at Rs. 84.86 lakhs in 1926-27, in 1939 they stood at Rs. 21.53 lakhs only. In scientific glassware and sheet and plate glass, however, Indian producers have not been able to oust the foreign competitors. There is no reason why the Indian manufacturers should not be able to produce larger quantities of sheet and plate glass of better quality. Future developments will largely

be possible in this direction. At present Japan is the principal competitor who has been able to expand her market in India at the expense of Czechoslovakia and Germany. In 1929-30, the shares of different countries were as follows: Czechoslovakia, 28.4 per cent; Japan, 29.4 per cent; Italy, 2.2 per cent; Germany, 13.6 per cent; British Empire 9.5 per cent; Belgium, 9.4 per cent; other countries, 7.5 per cent. However, by 1939, the proportions had changed as follows: Czechoslovakia, 9.1 per cent; Japan, 49.2 per cent; Italy, 2.7 per cent; Germany, 16.7 per cent; British Empire, 8.0 per cent; Belgium, 7.3 per cent; other countries, 7.0 per cent. It is to be noted that India is practically the only market in the world for glass bangles and, therefore, it is reasonable to hope that India would be enabled to produce all her requirements of glass bangles locally, for the process of manufacture is not very difficult and Indian labourers are trained in the line.

The Tariff Board, therefore, justifiably found that the first condition of the triple formula was substantially satisfied, in regard to raw materials, labour and a large internal market. The immediate need for protection, however, arose owing to unfair foreign competition,[6] as also from the fact that the glass industry, in its modern form, was an infant industry. Protection was asked for in connection with sheet glass; blown ware, including bottles, globes, chimneys, jars; pressed ware including glass tiles, dishes, bowls etc., and bangles, beads and false pearls. In regard to sheet glass there were allegations of unfair competition from Belgium. Imported Belgian sheet glass, it was pointed out, was of fourth quality, representing the cheapest variety, which was generally sold at a price which covered only material, labour and other direct charges. The allegations were investigated by the Board and were found to be correct. As regards blown ware, the Board found that the increased use of machinery was likely to enable the industry ultimately to compete on equal terms

[6] An important factor in foreign competition, which was neither raised by the producers nor examined by the Board, was that of exchange fluctuations. This became particularly severe after 1931, in the case of Japan.

with the foreign producers; the same conclusion also largely applied to the case of bangles, beads and false pearls. Excepting sheet glass, the Board concluded that in every branch the industry would be able to dispense with protection within a reasonable period. As regards sheet glass, they held that the third condition of the Fiscal Commission cannot "cover cases where the inability of the Indian industry to meet foreign competition without protection is due to the fact that such competition is unfair competition."[7]

Accordingly, the Board made the following proposals for protective duties on glass and glassware:

(*i*) Sheet and plate glass, including figured and ribbed glass,—Rs. 4 per 100 sq. feet or 25 per cent *ad valorem* whichever was higher.

(*ii*) Bangles, beads and false pearls,—50 per cent *ad valorem*.

(*iii*) Glass and glassware of other kinds, including bottles, phials, soda water bottles, jars, chimneys, globes, shades, dishes, bowls, plates and other tableware, and tiles,—50 per cent *ad valorem*.

The duties proposed were, as may be seen, quite moderate, and the Board worked out the incidence of the duties on various articles of daily use and found it to be very light. Thus on ordinary lantern globes, it worked out at 4 annas per dozen globes; on glass jars at $1\frac{1}{2}$ anna per jar; on tumblers at 5 annas per dozen tumblers; on aerated water bottles, at $\frac{1}{2}$ anna per bottle. In the great majority of cases the burden involved was not heavier than the burden which might be normally expected from the application of protective duties. The Board, therefore, rightly held that the extra burden involved in their proposals was not so excessive as to constitute a valid objection to the grant of protection.[8] Finally, the Board suggested that the period of protection should be one of ten years, for the reason that "a shorter period than ten years will be insufficient to create the necessary confidence on the part of the investor in the future of the glass industry."[9]

[7] *Report on Glass*, p. 61.

[8] *Ibid.*, p. 97.

[9] *Ibid.*, p. 98.

V

Tariff Board Report Shelved

The Board presented their Report in March 1932, but it was not until June 1935 that the Government announced their Report and released the Report for publication. It is curious that, in spite of the very cogent arguments advanced by the Board in this connection, the Government should have harped upon the same old argument that the absence of an indigenous supply of soda ash constituted a disadvantage to the industry and that, for this reason, the industry did not satisfy the conditions of discriminating protection. However, it must be mentioned that the Government postponed their final decision until the possibilities of tapping new sources of supply of soda ash were fully explored. It was reported at the time that the Imperial Chemicals were negotiating for a long lease of certain mineral properties from the Punjab Government in this connection and that this had aroused considerable opposition in the legislature, that a foreign concern should get preference in this respect. Then the negotiations were suddenly dropped.[10] In the meanwhile, the Government decided to assist the glass industry by granting a concession by way of rebate on the import duty on soda ash. In their Commerce Department Resolution of the 22nd June 1935,[11] the Government announced their decision to grant refunds of the entire import duty paid on soda ash of British or Colonial origin and of the excess of over 10 per cent *ad valorem* in the case of non-British ash used by Indian glass manufacturers. This concession was sanctioned for a period of three years in the first instance, but was extended up to 22nd June 1940, by another resolution in April 1938. Recently, on the 22nd June 1940, it was further extended for a period of two years, according to another resolution which stated the position as follows:[12]

"The production of soda ash on a commercial scale has not yet

[10] Latterly, the Imperial chemicals did acquire leasehold rights for exploiting the Khewra deposits.

[11] Cf. *Indian Trade Journal*, 27th June 1935, pp. 1409-10.

[12] *Indian Trade Journal*, 27th June 1940, p. 805.

developed in India but two industrial concerns have made considerable progress with their schemes for the production of indigenous soda ash on a large scale. In the meantime the arrangements announced in paragraph 5 of the Resolution dated the 22nd June 1935 are being continued for a further period of two years or (if this is earlier) until the Government of India are satisfied that soda ash in commercial quantities is being produced in India. The situation will then be further reviewed."

It is a remarkable indication of the opportunist manner in which the difficulties of the glass industry were turned into an advantage for imported soda ash. We have already seen that the single British firm, the Imperial Chemical Company Ltd., is responsible for the major part of the imports of soda ash into India. By a reduction of the duty on soda ash, the Government killed two birds with one stone. In the first place, they effectively prevented any soda ash industry from developing in India behind the protection afforded by the revenue duty of 25 per cent, and thus cut at the very root of the possibility of such development giving a chance to the glass manufacturers to ask for protection again in view of the fulfilment of the triple conditions. In the second place, the Government very actively assisted the British chemical industry by helping imports of soda ash on a preferential basis, which was already incorporated in the Ottawa Agreement. There were, moreover, complaints about the manner in which the refunds were made. For instance, in 1937, the price of soda ash was Rs. 87-8 per ton; it went on rising till in January 1938, the price rose to Rs. 102-8, and yet the refund was only Rs. 16 per ton. In January 1939, the price rose to Rs. 107-8 per ton but the increase in refund was only of 8 annas. The prices recently went up to Rs. 125 and there was no knowledge what the refund would be, because no refund had been made since 1939. There were complaints also as to the delay caused in getting refunds.[13] Thus the very purpose for which refunds were conceded has been largely nullified.

The establishment of the two concerns for the production of alkalis is bound to inaugurate a new situation for the glass industry. If the production of soda ash is commercially successful and quantitatively sufficient, as it no doubt will be,

[13] *Cf.* Proceedings of the Federation of Indian Chambers, 13th Annual Meeting, p. 133.

the pretext on which the glass industry was refused protection will no longer be available. However, there are one or two wicked possibilities which may have to be considered. It is just likely that the Government may withdraw the system of refunds on the ground that the factories can purchase their soda ash from the Indian concerns. If the present import duty of 25 per cent on non-British and preferential duty of 15 per cent on British Colonial soda ash continue, this will mean a rise in the price of soda ash internally. Sooner or later, the two concerns are bound to ask for protection of the soda ash industry. Thus the higher price may be perpetuated, for even if protection is not granted, out of consideration for the internal producers, the revenue-preferential duties may be continued. This will create difficult conditions for the glass industry. The Government, true to its tradition, may seek to shelve the question of protection to the glass industry by suggesting measures of tariff equality to nullify the disadvantage thus created. However, it is to be hoped that the Government will bear in mind their earlier objection on the basis of which protection has been refused to the glass industry. Mere equalisation of the tariff, will not be consonant with the requirements of fiscal policy accepted and clearly laid down by the Fiscal Commission. By the removal of the only excuse for non-assistance, *viz.*, production of soda ash in India, the glass industry must be regarded as fully satisfying the conditions of discriminating protection. Moreover, as we have seen in the foregoing pages, the construction put by the Government on the first condition of the triple formula is fundamentally wrong, and the glass industry has a sufficient balance of natural advantages in its favour, even as it stands now, and, therefore, deserves a thorough re-examination. In 1935, the Government made the promise that the case of the glass industry would be re-considered after three years. In spite of that promise, no such examination has been held. It is high time that the problems of the glass industry are investigated in the light of the changes that have arisen in the glass trade and of the new possibilities of soda ash manufacture in India, which is unnecessarily and unjustifiably held up by the refund system on the one hand and the preferential duties on the other.

CHAPTER XV

TECHNICAL CHANGES IN THE TARIFF

A number of enquiries made by the Tariff Board related to technical changes in tariffs designed to remove anomalies, by providing "equality" or "balance" or some such thing, the absence of which had caused inconvenience to trade and sometimes led to frustration of the intentions of tariff legislation. Some other changes were effected by the Government without reference to the Tariff Board, by simple executive orders or by alterations in the Finance Bills with the consent of the Legislature. In either case, the measures taken have led to certain consequences on the schemes of protection or on the structure of industries, which need careful consideration. Such changes can be classified under four main heads:

(*i*) Changes for bringing about "tariff equality" between different goods of the same class.

(*ii*) Changes for restoring the normal price relationship or "tariff" balance between different articles, particularly between an article and its actual or potential substitutes or between the finished product and its component parts.

(*iii*) Changes for minimising the burden of taxation on the necessaries of life or means of production.

(*iv*) Changes for safeguarding the revenue of the Government.

I

Tariff Equality

The necessity of tariff equality arises in cases where the duty on the finished article is lower than the duty on the materials which have to be imported for the manufacture of

that article. Such anomalies arose in a number of cases, where as a result of discriminating protection, higher tariffs were imposed on semi-manufactured articles, which formed the raw materials of finished products. Apart from these, there also arose similar tariff anomalies owing to ordinary revenue duties being imposed upon only a particular line of goods from amongst a class. The Government received representations from different industries, which were placed before the Tariff Board for consideration.

(1) *Printer's Ink*. The application for protection for the printer's ink industry was made in 1923 by the Hooghly Ink Company who were then the only firm in India manufacturing printer's ink on a large scale. The case of the Company was based on the point that, while imported printer's ink was subject to a duty of only $2\frac{1}{2}$ per cent *ad valorem*, the Indian manufacturer had to pay 15 per cent *ad valorem* on the raw materials he imported from abroad. Owing to this, according to the Company, the manufacturer of printer's ink was handicapped to the extent of $12\frac{1}{2}$ per cent. The Company, therefore, asked that either they might be exempted from the duty on imported materials, or, if the concession is inadmissible, the duty on imported ink might be raised to 15 per cent. The application was, in substance, one for "compensatory" protection and, therefore, the application of the formula of "substantive" protection was out of the question. Nor did the Company seek it. The industry possessed a few natural advantages, such as cheap labour, nearness to the market, and availability of two-fifths (in value) of the materials in India, chiefly linseed oil and mineral oil. The expenditure incurred on materials was more than twice what was spent on wages and salaries. Apart from this, the Indian consumption of printer's ink was still small and the market was, therefore, limited. Thus, the Tariff Board concluded that the industry was not entitled to any substantive protection. But they admitted as reasonable the contention, that the industry was unduly handicapped in its competition with foreign producers. They, therefore, considered the two alternatives, *viz.*, reduction of import duties on materials and increase in the duties on printer's ink. The former alternative they rejected on the ground that it would affect the revenues.

As regards the latter, they calculated the exact part played by the customs duties in raising the final costs of the industry. A 15 per cent import duty on materials did not mean a 15 per cent rise in final costs. In the opinion of the Board, about 2½ per cent was the measure of the handicap. They, therefore, recommended an increase in the existing duty on ink from 2½ per cent to 5 per cent *ad valorem*. The proposal was accepted by the Government and embodied in the Tariff Amendment Act, 1926.

(2) *Printing Type*. The case of the printing type industry was considered by the Board in 1928. Printing type was subject to a duty of 2½ per cent while the type metal was liable to a duty of 15 per cent. The Board found that the Tariff inequality was Rs. 3 per 100 lbs., in relation to type metal manufactured in India, while it was Rs. 4 per 100 lbs., in relation to type metal imported from abroad. In order to give sufficient relief, the Board recommended that the duty on printing type should be fixed at a rate corresponding to the duty paid on the imported type metal, and that towards this end, the existing duty of 2½ per cent *ad valorem* should be replaced by a specific duty of one anna per lb.[1] Accordingly under the Indian Tariff (Amendment) Act, 1929, a specific duty of 1 anna per lb., was levied on imported type in place of the existing duty of 2½ per cent. The conversion of the *ad valorem* duty into a specific one affected the cheaper type imported from Germany (which was mostly competing with the Indian type) rather than the better quality of type imported from the United Kingdom and United States. In 1934, the specific duty was further raised to 1½ anna per lb.

(3) *Electric Wires and Cables*. In the case of electric wires and cables, the anomaly was due to the fact while there was no duty on these wires and cables, a large number of articles used in their manufacture had to pay duties ranging from 5 to 30 per cent. The Board held that there was a distinct tariff inequality.[2] The principal raw materials imported

[1] *Report of Tariff Board on Printer's Ink* (Tariff Equality), 1925, pp. 1-10.

[2] *Report of Tariff Board on Electric Wires and Cables* (Tariff Equality), 1928, p. 2.

were electrolytic copper rod known as "black rod", raw rubber, cotton for making magnet wire braids for covering the cables, silk for making the magnet wires, electric light flexible pig lead, and chemicals, such as sulphur, zinc oxide etc. Electric wires and cables were of three kinds: bare hard-drawn copper conductors, paper insulated cables and rubber insulated cables. The Indian Cable Company, the applicant, did not produce paper-insulated cables, while in respect of copper conductors, it had already received exemption from the duty on black rod, except on black rod having a sectional area of less that 1/80th of a square inch. The Tariff Board, therefore, recommended the removal of the duty on black rod, while in the case of rubber insulated wires, as the inequality was of the order of 3 to 5 per cent, they recommended that all rubber insulated cables having a sectional area of 1/80th of a square inch should be subjected to a duty of 5 per cent. The Government accepted the latter recommendation and embodied it in the Indian Tariff (Amendment) Act, 1929. With regard to the former proposal the Government objected on the ground that the removal of the duty on black rod would lead to an increased consumption of electric copper rod to the detriment of other types of copper rod in other industrial uses. Therefore, they permitted the Indian Cable Company to import all its requirements free of duty under executive orders.[3]

(4) *Manila Rope.*[4] The Indian producers of manila rope imported raw hemp from the Philippines, which also had their own factories. Both rope as well as the raw material were subject to an *ad valorem* duty of 15 per cent. There was then no tariff inequality, so far as the duties were concerned. But the Tariff Board found that the shipping companies, which were the chief consumers of manila rope (to the extent of about two-thirds formerly), had begun to import manila

[3] It may be noted here that in 1931, the Indian Cable Company asked for substantive protection of its products. The Board found that the industry did not satisfy the conditions of Discriminating Protection and, therefore, rejected the application. The Government accepted the Board's finding.

[4] *Report of Tariff Board on Manila Rope* (Tariff Equality), 1929.

rope as ships' stores and kept in bonded ware-houses prior to use on the sea. Before 1920, manila rope used to be exported to some of the countries of the Far East, like Siam and the Straits Settlements, but owing to the duty on manila hemp, exports also had fallen to negligible quantities. Thus owing to the duties on the one hand and the device adopted by the shipping companies on the other, the manila rope industry almost collapsed. It could not be said that India had no advantage in producing manila rope with imported raw material, as against the Philippines, for, India enjoyed a freight advantage, owing to the higher freight on manila rope as compared to that on raw hemp, and also the advantage of cheap labour. Thus in markets proximate to India, like Siam or Malaya, the Indian manufacturers could ordinarily hold their own as against the Philippines. The Board, therefore, in order to enable the Indian manufacturers to recapture the Indian and foreign markets recommended the early removal of the import duty on manila hemp. The Government of India accepted the recommendation in principle, but have not so far seen their way to give effect to it on account of financial considerations. At present, the duty on both manila rope and hemp is at the level of 25 per cent. Thus, once again, the Government have sacrificed a flourishing local industry on the altar of "revenue considerations."

(5) *Camel-hair, Cotton and Canvas-ply Belting.*[5] While the finished product, namely cotton belting, paid no duty, the materials namely cotton yarn, used specially for making beltings and the painting and dressing materials, paid a duty of 15 per cent *ad valorem*. The Tariff Board proposed a duty of 5 per cent on cotton belting and the abolition of the 15 per cent duty on black proofing. Removal of the duties on cotton yarn and some of the other materials could not be recommended as the former would affect the cotton textile industry, while the latter were used in other industries, which would unnecessarily benefit thereby at the expense of the Govern-

[5] *Report of Tariff Board on Camel Hair, Cotton and Canvas-ply Belting* (Tariff Equality), 1928.

ment's revenue. As regards camel-hair belting, the Board proposed that a duty of 5 per cent should be imposed on imported camel-hair belting while, the duty on camel-hair yarn should be reduced from 15 per cent to 6 per cent, and that on black proofing abolished. Finally, in the case of canvas-ply belting, which was free of duty and very little of which was imported, the Board stated that the only relief required was in respect of cotton duck; but as cotton duck is used for other purposes than belting, the duty on it could not be removed. The Board, therefore, recommended relief by the imposition of a 5 per cent *ad valorem* duty on the belting itself. The Government of India accepted the Board's recommendation that a duty of 5 per cent should be imposed on cotton, camel-hair and canvas-ply belting, but they did not accept the proposal regarding the removal of the duty on black proofing. Instead, they decided to reduce the duty on camel-hair yarn to 5 per cent instead of 6 per cent as recommended by the Board. These changes were embodied in the Indian Tariff (Amendment) Act, 1928.

(6) *Bolts and Nuts.*[6] This was part of the Tariff Board enquiry on wagon-building in 1927. Bolts and nuts are manufactured from steel bars. While the duty on the steel bars was Rs. 40 per ton (as imposed by the Steel Industry Protection Acts of 1924 and 1927), while the duty on bolts and nuts was only 10 per cent *ad valorem*. The industry had asked for protection in 1927, but it was the finding of the Tariff Board then that the industry was being carried on on a very small scale, and it was not possible in the absence of data, to arrive at any conclusions regarding the costs and fair selling price. They did not, for this reason, recommend substantive protection for the industry but proposed the removal of the tariff inequality by imposing a specific duty of Rs. 2 per cent on bolts and nuts in place of the *ad valorem* duty. This proposal was embodied in the Steel Industry (Protection) Act, 1928.

(7) *Railway Materials.*[7] In May 1930, representations

[6] Cf., *supra*, Chapter III, section ii.

[7] *Report of Tariff Board on Tariff Equality and Protection for Railway Materials*, 1930.

were made to the Government that the duties on certain railway materials, like chrome steel points and crossings, bearing plates, fish bolts, rivets, dogspikes, stretcher bars, and gibs and cotters were lower than those on the raw materials used. The enquiry of the Tariff Board was not only for tariff equality but protection also. In regard to chrome steel points and crossings, the Board considered that their exemption provided for in the Statutory Schedule had become anomalous in view of the fact that the Tatas had already commenced manufacturing chrome steel products. The Board, therefore, recommended the imposition of the same protective duty on chrome steel switches and crossings as on other switches and crossings. Stretcher bars being a part of switches and crossings were also proposed to be subjected to the same duty. Bearing plates, being obsolete, no duty was recommended on them. As regards the remaining articles, the Indian manufacturer was found to be seriously at a disadvantage due to tariff inequality. The Board, therefore, recommended specific duties at the rate of Rs. 2-4-0 per cwt. on fish bolts and nuts, ordinary bolts and nuts, and dogspikes, and at the rate of Rs. 2 per cwt. on rivets, gibs and cotters. The above duties were justified not only on the ground of inequality, but also on the ground that protection was necessary to encourage an important section of the fabricating industry. The various proposals were accepted by the Government and embodied in the Steel Industry (Protection) Act, 1931.

(8) *Shuttles.*[8] In 1935, the Board examined the tariff inequality in respect of shuttles used in the cotton textile industry. There was a complaint that the duty on imported shuttles was lower than that on the wooden blocks used in their manufacture. The Board stated that there was no tariff inequality as regards the shuttles imported from the United Kingdom and some of the European countries. As regards Japanese shuttles, the Board considered that Japanese shuttles were not of good quality and there was no chance yet of their competing with the imported or Indian shuttles, and

[8] *Report of Tariff Board on Shuttles* (Tariff Equality), 1935.

that Japanese competition was not much more than a fear of the future. In view of these considerations, the Board merely recommended that the situation needed watching. The Government of India accepted the finding of the Board. It is quite apparent that the Tariff Board as well as the Government bungled the issues arising from the tariff anomaly relating to shuttles. The single company, Messrs. H. M. Patel, who had applied for removal of tariff inequality had asked for removal of the duty on wooden blocks from which shuttles were made. Instead of recommending this straightforward course, the Tariff Board weighed the question of imposing a higher duty on imported shuttles and gave a finding against it. Why they should not have thought of abolishing the duty on wooden blocks altogether is beyond comprehension. The Fiscal Commission had clearly stated that raw materials required for Indian industries should ordinarily be admitted free of duty. The Indian company was suffering from an unnatural disadvantage which should have been removed. There was no question of protection at all. But most important of all, the point to be noted is that although India has one of the largest textile industry in the world, the Board thought it fit to treat the matter so lightly, instead of encouraging the production of a simple article locally.

(9) *Carbon Brushes.*[9] The case of carbon brushes was referred to the Board in 1934, along with that of healds and reeds. Carbon brushes were liable to a duty of 10 per cent *ad valorem*, while carbon block paid a duty of 25 per cent *ad valorem*. Not only this, but there was considerable wastage in the production of carbon brushes from blocks, owing to the fact that the brushes had to be cut from blocks. The Board, therefore, recommended a reduction of the duty on carbon blocks from 25 per cent to 15 per cent *ad valorem*. The Government accepted the recommendation and gave effect to it by notification under Sec. 23 of the Sea Customs Act.

(10) *Healds and Reeds.*[10] The Tariff Board examined the case of healds and reeds along with that of carbon brushes.

[9] *Report of Tariff Board on Carbon Brushes and Healds and Reeds* (Tariff Equality), 1934, pp. 1-4.

[10] *Ibid.*, pp. 5-8.

Help was required by reason of the fact that while a number of raw materials used by the industry had to pay duties ranging from 20 to 25 per cent, the duty on imported healds and reeds was only 10 per cent. The principal materials used were yarn and varnish in the case of healds, and wire, pitch, ribs and paper in that of reeds. The Board had, as in the other cases, two methods available to effect tariff equality: either to reduce the duties on the raw materials or to raise those on the finished products. However, healds and reeds were themselves materials used by the cotton textile industry and, it was pointed out by the cotton interests that an increase in the duty on healds and reeds would be detrimental to them. The cotton manufacturers further pointed out that wherever possible tariff inequalities should be removed by methods which would not have the effect of raising the cost of the finished product manufactured by one industry when that finished product was essentially an imported raw material of another indigenous industry which had to meet severe external competition.[11] However, the Board considered that the materials used in the manufacture of healds and reeds being so numerous, the more convenient method of granting relief would be to increase the duty on imported healds and reeds. They also estimated that the average increase in cost of the cotton textile industry, which would follow on an increase in the duties as suggested, was negligible. The Board, therefore, recommended an increase of the duty on healds and reeds from 10 to 15 per cent. However, the Government did not accept this recommendation of the Board. They observed that they were not convinced that any tariff inequality existed. The calculations of the Board according to them, were based on the assumption that imported yarn was used in the manufacture of healds, but in view of the evidence of some of the firms it was clear that Indian mills could supply the requisite yarn. They, therefore, dismissed the claims of both healds and reeds on the ground that the applications were not for removal of tariff inequality but for substantive protection, which, in the nature of the

[11] *Report of Bombay Millowners' Association*, 1934, p. 81.

case, could not be granted. It is difficult to approve of the action taken by the Government in the case of healds and reeds. In the first place, even if imported yarn was not used by the producers in all cases, there was no doubt that largely that was the case. Secondly, there were other materials which had to be imported and in relation to which the Board had definitely admitted tariff inequality. The best course, no doubt, was to exempt from duties some of the staple materials ignoring the less important ones; but barring this course, the Government should have agreed to the Board's recommendations.

II

Tariff Balance

The necessity of establishing tariff balance arises whenever there occurs a maladjustment between the price of an article and that of its potential substitutes or between the price of a finished product and the prices of its component parts. In either case, instead of importing the article protected or otherwise liable to import duty, there will be a tendency to import the substitute or the component parts. This is bound to lead to the frustration of the purpose of the duty as also to disappointment of revenue expectations. Such anomalies have been corrected from time to time without reference to the the Tariff Board. The following cases may be noted:

(1) *Veneers and Undipped Splints.* We have already discussed[12] the case of veneers and undipped splints in connection with the match industry and seen how the revenue of the Government suffered owing to the large imports of these component parts of match-boxes in lieu of match-boxes. It was also noted that the Government, with a view to protecting the revenues, levied an import duty (under the Finance Act, 1924) of 4 annas 6 pies per pound on undipped splints and 6 annas per pound on veneers.

(2) *Boots and Shoes.* As a result of the specific minimum duty on boots and shoes, imports of the component parts of

[12] See *supra*, Chapter VIII, section i.

these articles, *viz.*, canvas uppers and rubber soling sheets were encouraged for assemblage in India. As the duty on the component parts was the standard revenue duty, this was profitable to manufacturers. In 1933, under the Finance Act of that year, an additional specific duty was levied on these materials.

(3) *Unmanufactured tobacco.* In the case of tobacco, the duty on imported raw tobacco (suitable for production of cigarettes) was chargeable at a duty which was nearly half the duty chargeable on cigarettes. Owing to this, cigarette manufacture increased within the country leading to imports of the raw material, *viz.*, unmanufactured tobacco. At present, the United Kingdom is the principal supplier of cigarettes to the Indian market and its imports of cigarettes amount in value to about Rs. 40 lakhs per annum. It is also the biggest consumer of the Indian raw tobacco (to the extent of about Rs. 146 lakhs, in 1938), which is exported abroad for being treated chemically before being manufactured into cigarettes. Thus, owing to the maladjustment between the prices of cigarettes and unmanufactured tobacco, the Indian cigarette industry received some protection at the expense of the Government's revenue and, as may be seen, also at the expense of the British tobacco industry. The duty on unmanufactured tobacco was already raised in 1927 from Re. 1 to Rs. 1-8-0 per lb. It was further raised to Rs. 3-4-0 per lb. (standard rate) and Rs. 2-12-0 (preferential rate) in 1934. The duty on cigarettes was altered from Rs. 10-10-0 per 1000, to 25 per cent *ad valorem*, and in addition either Rs. 8-2-0 per 1000 cigarettes or Rs. 3-4-0 per lb., whichever was higher. In view of the wide range of values in cigarettes, this combination of specific and *ad valorem* duties was found convenient. The revised rates amounted to a reduction in the duties on cheaper brands (which are mostly in competition with the Indian cigarettes) and to a slight rise in the duties on more expensive brands (which do not compete with Indian cigarettes). It will be apparent that "tariff balance" in this case was secured not merely for safeguarding the revenues but to remove the slightest trace of protection that could be available to the Indian tobacco manufacturers. This step was no doubt somewhat light-hearted, in view of

the growing importance of the Indian industry. In recent years, owing to a growth in the cigarette habit, cigarette factories have arisen in many parts of the country, particularly in the South. Before making alterations in tariffs, the Government of any but a bureaucratic type may be properly expected to pay some regard to the requirements of national industries which may have arisen through earlier tariff arrangements, *i.e.*, through no fault of theirs. To remove or revise duties recklessly is contrary to the avowed policy of industrial development and contrary to the accepted notions of statecraft. It was claimed at the time of alteration of the duties that a higher duty on unmanufactured tobacco would encourage the production of the better quality of tobacco. This no doubt appears a plausible argument, but its validity, as in the parallel case of the duty on long-staple cotton,[13] is questionable. The production of the raw material, *viz.*, the better class of tobacco (or, in the other case, long-stapled cotton) must ultimately depend on the existence of a successful manufacturing industry which alone is the guarantee for its continuance. It is putting the cart before the horse to encourage the production of the raw material at the expense of a nascent industry like cigarette manufacture.

(4) *Mechanical Lighters*. Under the Mechanical Lighters Excise Duty Act of 1934, an excise duty at the rate of Rs. 1-8-0 per lighter was levied on mechanical lighters produced in British India, and a countervailing revenue duty was imposed on imported mechanical lighters, as it was feared that the heavy protective duty on matches would encourage an increased use of these appliances, thus causing frustration of both protection as well as revenue.

III

Changes for Non-protective Benefit

Under this category we may include all those tariff changes which were made from time to time, with or with-

[13] See Chapter IV, section viii, *supra*.

out reference to the Tariff Board, avowedly for relieving the consumer or for helping industries. Some of these changes were recommended by the Taxation Enquiry Committee and the Fiscal Commission, while certain cases were brought to the notice of the Government by the Tariff Board itself. It cannot, however, be claimed that the changes were in all cases desirable from the viewpoint of industries.

(1) *Sulphur.*[14] One of the earliest cases of this category was in regard to sulphur. The Tariff Board was asked in October 1923 to consider the question of the removal of the duty on this material. The Board considered that sulphur was a very important basic material which was not produced but on which depended a number of industries in India. The removal of the duty would not harm any local sulphur interests, but, on the other hand, would be of substantial benefit to chemical and other industries. The Board, therefore, recommended removal of the duty on sulphur. The proposal was accepted by the Government and sulphur was exempted from duty by executive orders in 1924 and later by legislation in 1925. This measure was undoubtedly beneficial to the industry.

(2) *Spelter and Galvanised Hardware.*[15] On a reference to the Tariff Board in 1926, the duty on spelter was removed in the following year as it was found inconsistent with the policy of discriminating protection in view of the fact that it hindered the development of certain industries like the galvanising industry, manufacture of brass and other alloys containing zinc. India consumes large quantities of zinc, not only in the form of spelter but in that of brass, galvanised sheets, pigments and various salts. In 1937, total imports were valued at Rs. 83 lakhs, the principal suppliers being Australia and Belgium. The zinc concentrates produced in Burma are almost entirely shipped to Belgium, and a proposal to smelt Burmese zinc concentrates at Jamshedpur near the Tata works was abandoned a few years ago. It may be

[14] *Report of Tariff Board on Sulphur* (Removal of Duty), 1924.

[15] *Report of Tariff Board on Spelter (Removal of Duty) and on Galvanized Hardware (Enhancement of Duty)*, 1926.

noted that the Indian Galvanizing Company in its application in connection with this Board enquiry had also applied for protection by tariff equality for its products, but the application was rejected by the Board on the ground that there was no case either for tariff equality or protection.

(3) *Export Duty on Tea.* This was abolished in 1927, on the recommendation of the Taxation Enquiry Committee, and the loss of revenue was made up by effecting a change in the income tax law which brought the tea companies under the operation of income tax as deriving partly non-agricultural incomes.

(4) *Motor Cars and Tyres.* In 1927, again, the import duty on motor cars was reduced from 30 per cent to 20 per cent and that on tyres from 30 to 15 per cent. This measure was intended for encouraging motor transport in India. At present, under the Indo-British Trade Agreement, the rates on motor cars are $37\frac{1}{2}$ per cent (standard) and 30 per cent (preferential).

(5) *Sundry changes.* The Tariff Acts of 1927 and 1928 removed import duties on various articles, including machinery and component parts of machinery, and mill stores, and the following articles: currants, agricultural implements, plated surgical instruments, milking machines, zinc lithographic plates etc. The "free list" was further extended in 1930. The export duties on hides and skins were abolished in 1934-35, as injurious to the export trade in those commodities.

IV

Revenue Changes

Although the "revenue changes" effected between 1930 and 1935, on grounds of financial stringency caused by the depression, were for revenue only, they had undoubtedly favourable or adverse effects, as the case might be, on the industries. Cotton piecegoods, sugar, kerosene, tobacco, matches, liquors and silver were the principal articles chosen for alteration of duties for revenue purposes, mainly because these articles enjoyed the widest consumption and therefore yielded large revenues. In some cases, as in sugar, matches,

kerosene and silver, the increases in import duties were matched by countervailing excise duties. An important general change was introduced in 1931, when, in the General and Supplementary Budgets, surcharges were levied on a wide range of commodities, which had the effect of raising the general level of tariffs from 15 to 25 per cent. Some of these surcharges were removed later, others retained in view of the needs of industries.

V

Conclusion

It will appear that both when measures were taken by the Government, or proposed by the Tariff Board but refused by the Government, the requirements of the small nascent industries were given little consideration. Everything was looked at through the spectacles of revenue considerations. Many a seedling was destroyed by the frost of these revenue considerations, of which we shall have something more to say anon. In the case of healds and reeds, shuttles, and manila rope, as also in that of the Indian cigarette industry, preponderance of revenue considerations or solicitude for rival trade interests prevented the Government from taking the right step. If industrial development was really the aim of the Government, even revenue could await its subsequent growth which necessarily attends upon the increase of national wealth due to industrialisation. It is impossible that a country humming with active industries would leave the Government famished for finances. It is entirely a matter of readjustment of the scheme of taxation. Most important of all, one noticeable feature of the Government's policy has been to impose duties for revenue and, when such duties have led to the growth of any indigenous industry under the shelter of protection thus afforded, for remedying the consequent fall in revenue, the Government have seldom hesitated to reduce the duties so as to nullify the earlier protection. Such scant regard for business expectations and for experimental investments by businessmen ill accords with a policy of industrialisation.

PART II

THE REVIEW OF FISCAL POLICY

CHAPTER XVI

DISCRIMINATING PROTECTION—ITS GENESIS AND RATIONALE

In the foregoing pages, we have studied the factual side of the Indian system of Discriminating Protection, in each case laying stress upon the fiscal rather than the historical or organisational aspects of the industries sought to be developed through protection. Now we are in a position to analyse the main tendencies which were noted in the course of the operation of fiscal measures as also to discuss in a closely reasoned way the genesis and rationale of the fiscal system that has arisen, to hold a complete *post-mortem* as regards the past, and to suggest and prognosticate the future line of action. Before we undertake this task, however, it would be fruitful to enquire into the reasons which led the Fiscal Commission—or rather the majority of that Commission—to adopt Discriminating Protection as the corner-stone of India's fiscal policy. It would be still more fruitful and interesting to enquire how far their hopes and fears were realised and also whether there was any substance in the minority's view, that the conditions laid down under the triple formula were unduly stringent and that besides entailing delay in giving effect to the policy of industrialisation, they would not produce adequate results.[1] The expression "discriminating protection," which embodied the policy advocated by the majority of the Fiscal Commission, was presented to the Commission by the Honourable Mr. Harkishanlal while giving his evidence,[2] and the expression not only achieved imme-

[1] *Report of the Fiscal Commission*, pp. 153 ff.

[2] J. C. Coyajee, *The Indian Fiscal Problem*, p. 24. The expression is not found, to the best of my knowledge, anywhere in the course of European fiscal literature. It is to be noted that Lala Harkishanlal was also the origin of another dictum, which is widely quoted by University examinees, *viz.*, "Nurse the baby, protect the child and free the adult!"

diate popularity and respectability in the course of the subsequent discussions held by the Commission itself but has dominated the Indian economic thought either as a panacea or as an irritant. I am inclined to think that it was this expression which has done more harm to India's fiscal interests than any other single thing or event in the tariff history of the country. Naturally, nobody wants to be indiscriminate in regard to the country's tariff policy, for that would be patently contrary to wisdom; so the hypnotising virtue of the expression still holds some of our economic thinkers in thraldom. As in the case of many other shibboleths, there is reason to fear that the true content of discrimination is seldom understood or its capacity to harm sufficiently appreciated. If "an undue devotion to fiscal catch-words and shibboleths and a tendency to erect economic principles into dogmas characterised the rank and file of the fiscal controversialists"[3] of an earlier age, it has been even more so in the case of adherents of the new-fangled fiscal doctrine erected by the majority of the Fiscal Commission. But of this more anon.

I

Historical

The history of the Indian tariff before as well as after the last war, which marked a turning point, has been a history of the conflict of commercial interests. In the early days, the East India Company was interested, in the initial stages of its rule at least, in developing the Indian handicrafts and making profits by the exports of their products to Europe. As the Industrial Commission[4] put it:

> "The commercial instincts of the East India Company had from its earliest days in this country led it to make various attempts to improve those Indian industries from which its export trade was largely drawn, as for example, by organising and financing the manufacture of cotton and silk piece-goods and silk yarn, although this policy met with oppo-

[3] *Ibid.*, p. 23.
[4] *Report of the Industrial Commission*, 1916-18, para. 105.

sition from vested interests in England, which were at one time sufficiently powerful to insist that it should be suspended and that the Company should instead concentrate on the export from India of the raw material necessary for manufacturers in England. The effect of this traditional policy continued for some time after the Company had ceased to be a trading body and even after it had been replaced by the direct rule of the Crown, and doubtless moulded such subsequent efforts as were made in the same direction by Government. But as laissez-faire views gradually gained increasing acceptance both in England and in India, these spasmodic efforts became less frequent and the first effort at a general policy of industrial development took only two forms,—a very imperfect provision of technical and industrial education, and the collection and dissemination of commercial and industrial information."

There soon arose a clash of interests between the East India Company, which was mainly a trading concern, and the powerful industrial houses of England, which was resolved by first depriving the Company of its commercial functions and later even of its political identity. During the 19th century, the Company had become a mere tool in the hands of the dictators of policy at home, and, therefore, it was quite easy for the English 'vested' interests to use the tariff as a weapon to aggrandise themselves and to injure the Indian cottage industries. By this time, the East India Company was so completely identified with English industrial interests that it had no incentive left in refraining from using the tariff in a manner harmful to the Indian economy. At first the customs tariff, though essentially a simple one, had an element of preference in it. The duties on raw produce were at the rate of $3\frac{1}{2}$ per cent, while those on manufactured articles at $3\frac{1}{2}$ or 5 per cent, and, until 1848,[5] the duties were twice as high in the case of goods imported in foreign ships.

It has been admitted by the Industrial Commission that the vested interests in England were "sufficiently powerful to insist that....the East India Company should concentrate on the export of raw materials necessary for manufactures in England." This was the "plantation" theory of territorial possessions which was adopted by England also

[5] After this date, for some time, the basis of discrimination was irrespective of the nationality of shipping and was specifically against non-British goods.

in the case of the Colonies. It was against this theory that first the American Colonies and later the Dominions rebelled. In the earlier part of the 19th century there had come over English trade policy great changes which were the result not of any altruistic spirit in British policy but of the declining belief in the doctrine of protection and the consciousness that England had achieved the proud position of the premier manufacturing and exporting nation. The defeat of the landed interests and the triumph of the industrial section of the British community which underlay the repeal of the Corn Laws in 1846 had ushered in the new era of fiscal policy in which not only Britain but also Britain's overseas Dominions were going to be forced into accepting free trade. Both responsible government as well as fiscal freedom were denied the colonies by not only the Conservative but the Whig administrations at Whitehall, as long as it was practicable and safe to deny them. Huskisson stated in the House of Commons in 1825 that England had pursued the policy of exploitation of the colonies. "Recollecting that for centuries, it has been," he said, "a settled maxim of public policy in all great States having dependencies to make the interest of those dependencies subservient to the interests, or the supposed interests, of the parent state, there is perhaps no country where the consequences of perseverance in such a system, on the one hand, and of its relaxation, on the other, can be so forcibly illustrated as in our own."[6] But whereas, under the old colonial policy, the British Government sought to impose tariff restrictions on the colonies of its own make, under the new colonial policy, it expected the Empire to adopt free trade so as to help Britain's foreign trade. Free Trade as conceived by Whitehall, by Manchester and by Lombard Street was to be the permanent and unvarying fiscal policy of the Empire. The history of the relations between the Mother Country and the colonies is replete with instances of the struggle for fiscal power, especially during 1847-95. Canada, Australia, Newfoundland

[6] Quoted by Porrit, *Fiscal and Diplomatic Freedom of the British Overseas Dominions*, p. 11.

and several other self-governing colonies rebelled against what they considered as interested interference on the part of Britain with their fiscal policies, and fought their way to full fiscal freedom in 1895. It need not be supposed, therefore, that India was singled out by the British industrial interests for foisting their notions of free trade upon her. The British were firmly convinced about the virtues of Free Trade and, believing that what was good for the goose was also good for the gander, somewhat dogmatically insisted that other countries also stood to benefit by their own policies.[7] Apart from this, it was undoubtedly in the interests of Britain to enforce free trade on her own colonies and dependencies.

After 1857, owing to the financial embarrassment caused by the Mutiny, the budgetary situation necessitated large increases in both import as well as export duties. In that year, Lord Canning laid down certain general principles for tariff reconstruction, of which the following four may be noted: (*a*) equalisation of duties on British and foreign goods and assimilation of manufactured and non-manufactured goods; (*b*) exemption of articles from which the revenue was inconsiderable; (*c*) abolition of export duties; and (*d*) increase of import duties especially on luxury goods. The Act of 1859 was based on these principles and, in view of the financial stringency, was approved by the Secretary of State. Under this Act, the general rate of duty was raised from 5 to 10 per cent, while the duties on cotton yarn were raised from 3½ to 5 per cent. There were simultaneous complaints from British traders in England and India and the Government were urged to see that "the commercial policy of Her Majesty's Government in India will not be inaugurated by a departure from those principles of free trade which are now recognised in England as the basis of commercial prosperity." As usual, tears were shed by the complainants bemoaning the lot of the Indian consumers and

[7] For a succinct account of the continuous tussle between England and her colonies during the 18th and 19th centuries, see Porrit, *op.cit.*, pp. 1-170.

agriculturists, and well might the Indian business men have exclaimed in the strain of Disraeli who once said: "I am rather suspicious every time Mr. Gladstone speaks of God!" The general standpoint of the critics was that India was fit for agricultural production only and that if she was capable of industrial development it would come about naturally and best, if it were not artificially fostered. From now onwards, the Government of India was continuously influenced by a series of Secretaries of State, who in their turn, were continuously pestered by cantankerous commercial bodies at home and were forced by them to make themselves effective. Between 1859 and 1862, reductions were brought about in the revenue duties including, in particular, duties on cotton goods. In 1874, the Manchester Chamber of Commerce addressed a memorial to the Secretary of State pointing out the protective character of the 3½ per cent duty on cotton goods, and praying for its early removal. It was stated that a protected trade in cotton manufactures was springing up in India to the disadvantage both of India and England, at "huge cost to the native population," and further : "A large number of new mills are now being projected and the revenue from import duties will be consequently diminished; hence the import duty is defeating its own object as well as inflicting an injustice on the consumer and importer." This led to the appointment by the Government of India of a Committee in 1874. The Committee, *inter alia*, rejected the demand for repeal of the cotton duties, stating that there was no competition at all between the English and Indian cotton manufactures and that while Rs. 4 lakhs represented competed goods, Rs. 77 lakhs of revenue represented non-competing goods. The Committee declared that it was not even necessary to enquire whether the finances of the country could afford remission of the duty.[8] Lord Salisbury, the then Secretary of State, not satisfied with the outcome of the enquiry and the subsequent action of the Government, asked for explanations why changes were not submitted for his approval first. The Government of India, in their despatch, replied that it

[8] *Parliamentary Paper* 56 *of* 1876.

had never been their practice to "refer alterations of customs duties for the opinion of Her Majesty's Government previously to their being introduced and passed in the Legislative Council." The Secretary of State said that the objections of Her Majesty's Government were more political than economic, observing that "Parliament will not allow the only remnant within the direct jurisdiction of the English Government to levy protective duty which so far as it operates at all is hostile to English manufactures." On this question there were strong dissensions both within the India Council as well as the Viceroy's Council. Some of the members of the former stated that it was violation of India's right to determine her own fiscal policy. But the Secretary of State overruled all objections declaring that "Whether the question be regarded as it affects the consumer, the producer, or the revenue, I am of opinion that the interests of India (*sic*) imperatively require the timely removal of a tax which is at once wrong in principle, injurious in its practical effects, and self-destructive in its operation." The struggle for the fiscal autonomy of the India Government went on for some time and it looked almost like a chapter from the history of one of the self-governing Dominions with their historic controversies with the Colonial Secretaries.[9]

The struggle was ended temporarily by the reshuffling of Viceroy's Council in 1877, when Lord Lytton became Viceroy and Sir John Strachey, a confirmed freetrader, the Finance Member. In July 1877, Parliament passed a resolution recommending the removal of cotton duties in India, stating that the duties being protective in their nature were contrary to sound commercial policy and ought to be repealed. Strachey's declared principles were: (*a*) no protection should be given under any circumstances; where local production existed, protective effect of revenue duties should be nullified by countervailing excise duties; (*b*) raw materials should be imported free of duty; and (*c*) small

[9] Particularly the famous controversy over the Galt Tariff between Canada and England, which ended in a victory for the Colonial Government. Cf. Porrit, *op.cit.*, pp. 453 ff.

items should be exempt from taxation. Strachey's free-trade ardour was for some time restrained by the fact that the finances of the Government did not permit a sudden metamorphosis of the fiscal structure. It is remarkable that in his financial statement in 1877 he observed: "I am not ashamed to say that, while I hope that I feel as strongly as any man the duties which I owe to India, there is no higher duty in my estimation than that which I owe to my own country: I believe that our countrymen at home have a real and a very serious grievance and that it is no imaginary injury against which they complain." And, further: "The truth is that cotton goods are the sole article of foreign production which the people of India largely consume, and there is no possibility of deriving a large customs revenue from anything else. I do not know how long a period may elapse before such a consummation is reached, but, whether we see it or not, the time is not hopelessly distant when the ports of India will be thrown open freely to the commerce of the world." In 1878-9, therefore, in accordance with this programme, in spite of the large deficit, Strachey exempted coarser cotton goods from duty and the finance bill was certified by the Viceroy in the teeth of considerable opposition from both official as well as non-official members. This was a time, when the official members had a freedom to vote as they pleased and when a certain type of Englishmen came out to govern who were independent and conscientious in their views and actions, and who fearlessly expressed themselves, unfettered by official rules of conduct. In the following years, when finances improved, practically all the customs duties, except those on some luxury goods, were retained. As Professor Thomas puts it, the steps taken were "really an offering to the idol of free trade, on which English statesmen and economists had gone crazy in those days."[10] The fact is that during the entire period 1857-1914, India was compelled to follow free trade ostensibly on grounds of theory, but the shrewd merchants of Manchester were well aware that it

[10] *Growth of Federal Finance in India*, pp. 217-8.

was really profitable to them.[11]

The period 1882-94 was one of complete free trade for India and for several years after 1883 there were no important tariff changes. In 1894, owing to the fall in the sterling value of the rupee and owing to a series of wars fought in India, the Government was forced to impose fresh taxation to meet the increasing liabilities on account of the "home charges" and defence. In 1893-94, there was a deficit of Rs. 1·75 crores and in the following year, it went up to Rs. 3·5 crores. The Government proposed a general tariff of 5 per cent on all imports, but the Secretary of State removed cotton yarn and cotton piecegoods from the list, in spite of opposition in the India Council; but, when latterly, this resulted in a poor yield of revenue, the Secretary of State agreed to inclusion of cotton goods in the tariff on condition that such inclusion was accompanied by a countervailing excise duty on cotton goods produced in India. Thus in 1895, import duties were levied at the rate of 5 per cent on all cotton piecegoods and cotton yarn (above 20 counts) and along with these a 3½ per cent excise duty in India. There was stout opposition to the excise duty in the Legislative Council, but Westland, the then Finance Member, said that the measure "was recommended to us by superior orders and orders which we are obliged to obey." At the same time, he admitted that "of the cotton manufactures of India, quite 94 per cent is absolutely outside the range of competition with Manchester, being the coarser quality of goods (24s. and under) which Manchester cannot pretend to supply so

[11] Cf. Buchanan, *Capitalistic Enterprise in India*, pp. 465 ff. Buchanan says: "The influence of Manchester capitalists is written large in Indian tariff history. They have been as anxious to preserve the Indian market for the benefit of British manufacturers, merchants, bankers and shippers as American capitalists have been to preserve the American market for themselves. To the demands of this influential group in British politics all governments have listened. Lord Curzon, who was active during this period both in England and in India, states (in a letter to the London *Times* of June 2, 1908) that 'ever since India was ordered to abolish her customs tariff in 1875 it has been in the main in response to Lancashire pressure that the successive readjustments of this policy have been introduced.'"

cheaply as India," and that Manchester had an absolute monopoly to the finer qualities of goods. Only about 6 per cent of Indian mill products were able to compete with Manchester goods and, therefore, the countervailing excise duty was an unnecessary impediment imposed upon the Indian industry. But the whole procedure smacked of

> The good old rule,
> The simple plan,
> That they should take who have the power
> And they should keep who can.

On further representations from Manchester, fresh mandates were issued by the Secretary of State, and the duties were further altered in 1896 so as to increase their restrictive rigour and to help the Lancashire cotton interests to dominate the Indian market.

The position remained unaltered for the next twenty years or so. But in the meantime, two important events took place which may be noted. From 1890 onwards there were considerable imports of bounty-fed beet-sugar from Germany and Austria. In 1897, the United States imposed anti-dumping duties against similar imports into its own territories. In consequence of this, the beet-sugar producing countries were forced to expand their markets in other countries. On account of this unfair competition, which was permitted for some time by the Government of India in pursuance of its policy of free trade, many of the Indian sugar refineries had to be closed down and cane cultivation was also reduced considerably.[12] To save the sugar industry as also the cane cultivator, an Act was passed in 1899, levying a countervailing import duty on bounty-fed sugar. Westland, the Finance Member, explained that the purpose of the duty was merely to protect the indigenous industry against the competition of European manufacturers and that there was no question of any Indian or English interests

[12] Between 1895-1900, in the United Provinces alone over 180 of the small refineries of sugar had to be closed down. There were more closures in Bengal particularly in Jessore. *Cf.* East India (Sugar) Countervailing Duties Act, Correspondence etc. (1901)—Parliamentary Paper.

being adversely affected thereby. However, it must be noted that the imposition of the countervailing duty did not produce the desired result and the imports of beet-sugar continued unabated, because, apart from the State bounties, the exports of German, French and Austrian sugar were encouraged by shipping and railway rebates and were controlled by powerful Cartels who were determined to dump their sugar at any cost in foreign markets. In 1902, therefore, the Tariff Act was passed by which the import duties were further raised with a view to checking the imports. Owing to the plethora of foreign sugar, not only were refineries closed down, but the agriculturists abandoned cane cultivation in favour of other more paying crops. What is more important, the effect of the duties was also to some extent to provide a measure of veiled preference to Java and Mauritius, the alternative sources of refined white sugar, which maintained their predominance for a considerable time afterwards. One of the important causes of the decline of the Indian sugar industry during these years was the refusal of the Government to grant permission to extract alcohol from molasses; another was the complete absence of modernised plant in the refineries. However, in 1902, as a result of the deliberations of the International Sugar Conference at Brussels, an agreement was arrived at between the world's principal sugar-producing countries, according to which the beet-sugar countries agreed to abolish all kinds of bounties on their sugar exports. In view of this, the countervailing duties were abolished in 1903 in the case of those countries which abided by the agreement. Was the countervailing duty on bounty-fed sugar a derogation from the free-trade policy? Westland stated that the purpose was to "protect" the indigenous sugar industry of India from the temporary depredations of the foreign sugar producers. The proper description of the duty would be that it was a "safeguarding" duty, levied in order merely to nullify the unfair advantage which manufacturers of beet-sugar obtained as a result of the system of bounties and to put them on the par of free trade with India and other countries which were not dumping sugar. Another important feature to be noted, which is of some significance to our subsequent discussions was the

fact that the anti-bounty duties were levied against three or four countries of Europe, who were not only disturbing the sugar trade of India but also of England itself.[13] Thus, under the Sugar Convention of 1864, the United Kingdom had obtained the right to consider surtaxes on the imports of refined sugar from those signatory States which did not suppress bounties. In 1887, in spite of the possibility of this right coming into conflict with the most-favoured-nation clause, England declined to take action. The Indian Government's fiscal legislation in this connection, therefore, was an important plank in the programme to force the States in question to come to terms at Brussels. It is well-known that at Brussels, as a result of the Conference, Russia, one of the parties which had quarrelled with the United Kingdom, was prevented from exporting sugar to England. It appears, therefore, that the Indian sugar duties were irrelevant to the free trade *versus* protection issue, and, after all, the interests adversely affected were foreign and not British.

Another matter of considerable importance was the question of Imperial Preference which was for the first time raised in England and India as a result of the activities of the group of Tariff Reformers led by Joseph Chamberlain in the late nineties and in the first decade of the twentieth century. This will be considered in detail in a later Chapter. The main point which only may be noted here is that the Government of India under Lord Curzon turned down the proposals for Imperial Preference and that this was partly due to the fear of loss of revenue and retaliation. But, there is no doubt that, all things considered, it was a remarkably courageous and frank document under the circumstances of the day. The defeat of Joseph Chamberlain over the tariff question for some time staved off the question, and it was not till after a quarter of a century that it was raised again by a new batch of tariff reformers who styled themselves Empire Free Traders.

The advent of the war necessitated additional taxation in 1916 and several changes were made in the customs tariff.

[13] *Cf.* T. E. Gregory, *Tariffs a Study in Method*, pp. 471-2.

The general rate was raised from 5 per cent to $7\frac{1}{2}$ per cent[14] and the duties on the luxury items including liquors, tobacco, silver manufactures and also on arms and sugar were enhanced. Machinery as well as iron and steel, which were on the free list so far, were subjected to duties ranging from 1 to $2\frac{1}{2}$ per cent. In 1917, the duty on imported cotton piece-goods was raised from $3\frac{1}{2}$ per cent to $7\frac{1}{2}$ per cent, and the export duty on raw jute was doubled. But the countervailing excise duty on cotton goods was left untouched, which caused much heart-burning in Lancashire, and there was a strong agitation in England for a corresponding increase in the excise duty also. The Government, however, defended the increase in the import duty on the ground that the duty was necessary to enable India to pay the war contribution of £100 millions. Commenting on this agitation the London *Times* wrote:[15] "The Indian cotton excise duty has always been politically, economically, and above all morally indefensible. Opposition to it unites every class in India, from the official members of the Government to all grades of the Indian community. It has made a grave breach in the moral basis of the British control of India. It was deeply resented from the outset, and has remained an open sore. India considers that the excise was imposed out of fear of the Lancashire votes and no one can say that India is wrong in her belief."

It was the aftermath of the war, however, which proved a greater strain than the war itself on the governmental finances; for in 1921, owing to the economic crisis which engulfed India's industry and commerce, the Government were again faced by an enormous deficit of Rs. 19 crores. Sir Malcolm Hailey, the Finance Member, said: "When additional revenues are required, the first head to which one's thought turns is customs." Accordingly, he raised the general *ad valorem* duties from $7\frac{1}{2}$ per cent to 11 per cent and im-

[14] Excepting cotton duties and excise which were maintained at $3\frac{1}{2}$ per cent only.

[15] On March 5, 1917. Quoted by C. N. Vakil, *Industrial Policy of India*, p. 43.

posed a special duty of 20 per cent *ad valorem* on motor cars, silks, umbrellas, watches etc. But the Finance Member expressly stated that the increases were made solely on account of financial necessity and not as a departure of fiscal policy. Once more there was agitation in England for an increase in the countervailing excise on cotton goods. But by this time a convention of fiscal policy was adopted by the Secretary of State, on the recommendation of the Joint Select Committee of 1919, which was communicated by him to the Government of India on the 30th June 1921. This convention, known as the "Fiscal Autonomy Convention," will be discussed later in this Chapter in greater detail. It may be noted here that in view of the convention, there could not be an express interference by the home authorities in the fiscal arrangements of the Government of India, although its indirect effects were felt later. In spite of the heavy taxation in 1921-22, the budgetary position continued to deteriorate and in the following year was disclosed a deficit of Rs. 28 crores. To meet this, the general rate of duty was raised from 11 to 15 per cent, but no change was made this time in the cotton duties, because the Legislature would not agree to an increase in the countervailing excise duty on the ground that the proposal was an inspired one emanating from Manchester. There is no means to know whether in fact this was the case, but in view of the antecedents of the case, there was at least a possibility that the Secretary of State might have brought pressure to bear upon the Government of India at the instance of the Lancashire interests. In fact, there was nothing in the Fiscal Autonomy Convention to prevent him from doing so, for, that convention merely stated that the Secretary of State would not ordinarily interfere when there was agreement between the Government of India and its Legislature. Several special duties were also imposed at this time. Iron and steel and railway material, which so far paid 2½ per cent were now subjected to a higher duty of 10 per cent; the duty on matches was increased from 12 annas to Rs. 1-8-0 per gross boxes; and that on sugar was raised from 15 to 25 per cent. A new duty was imposed on cotton yarn, which was on the free list since 1896, at the rate of 5 per cent. An excise duty of 1

anna was imposed on kerosene manufactured in India and correspondingly the customs duty on it was raised from $1\frac{1}{2}$ annas to $2\frac{1}{2}$ annas. Also further additions were made to the special duties on liquor and the "luxury rate" introduced in 1921 was raised to 30 per cent. Another important feature which emerged in the years following the war was the tendency to impose export duties. At one time, export duties used to figure prominently in the Indian tariff, but barring the duty on rice all had been gradually abolished. However, the financial difficulties of the war years gave rise to two new export duties: one on jute, raw as well as manufactured, the other on tea. In 1919, a new principle was adopted in regard to the export tariff. Up till then, export duties were levied for revenue only, but the export duty on raw hides and skins imposed in that year was frankly a measure of protection for the Indian tanning industry, with a proviso for the rebate of two-thirds of the duty on hides and skins exported to the Empire to be tanned there. The post-war period also gave rise to another feature of the Indian taxation system, viz., its excessive reliance on customs for raising revenue. This feature has had a nauseating influence on the tariff decisions taken from time to time in later years, and, as we saw in the foregoing pages, impeded the free manipulation of the tariff towards well-defined scientific ends. We shall again revert to this topic in the next Chapter and note, in particular, the relationship between the tariff and the Government's revenue.

To sum up, the fiscal policy of the Government of India up to 1923 remained largely free-trade in its orientation, and revenue of the Government rather than the wealth of the people was the dominating consideration in deciding upon the rates of tariff to be levied. Nay, if industries arose as a result of such revenue tariffs, and consequently the revenue collections fell off, it was regarded as an *undesirable* tendency and the tariff was immediately reduced with a view to correct such a tendency notwithstanding the effects of such action on the industries concerned. On top of this revenue-mindedness came the back-door, as well as front-door, influence of British Big Business, glorifying Free Trade to suit its purpose, just as in recent years Empire Free Trade has been made

a cause of virtue to suit the exigencies of British trade. However, it was the war of 1914-18 which forced the Government to accept higher levels of tariffs, which for several years could not be reduced without damaging the finances. The self-same revenue requirements, thus, led to the creation of an indirect but unscientific system of protection and the efforts of the Government from 1919 onwards were constantly aimed at wriggling out of the situation that had arisen. The importance of the customs revenue in the years immediately following the war can be gauged from the following figures:[16]

TABLE I

Customs Revenue during 1909-22

(In Rs. lakhs)

Year	Import duties	Export duties	Total customs	Total revenue	Percentage
1909-14	7,99	1,30	9,24	66,70	13.9
1914-15	8,07	83	8,90	62,86	14.1
1915-16	7,38	79	8,37	65,86	12.7
1916-17	9,90	2,47	12,37	83,18	14.9
1917-18	12,00	3,32	15,32	103,04	14.9
1918-19	12,57	3,69	16,26	114,07	14.2
1919-20	15,43	4,81	20,24	117,37	17.2
1920-21	23,15	4,84	27,99	116,80	23.9
1921-22	27,64	4,50	32,14	113,15	24.4

II

The Genesis of Protectionism

But before long a movement for a mild protective policy had penetrated the stubborn official barrier of India, as a result of a variety of influences of which the chief were the recurrent annual budgetary deficits and the possibilities opened up for British investments, on the one hand, and for the creation, on the other, of new industries which in times

[16] For figures subsequent to 1922, see next Chapter.

of emergency might prop up the Imperial power. The war had already imported an atmosphere of economic protection in India and owing to this "the industries, both nascent and established, had flourished to an unprecedented degree."[17] The war had also necessitated a full-fledged enquiry into the industrial possibilities of India and the Industrial Commission of 1916-18, under the chairmanship of Sir Thomas Holland, recommended that "in future Government must play an active part in the industrial development of the country, with the aim of making India more self-contained in respect of man and material," and further stated that "it is impossible for a Government to undertake that part, unless provided with reliable scientific and technical advice." The Industrial Commission was mainly appointed to investigate the industrial potentialities of India, with a view to India's assistance to the Imperial Power during the war. By the time the Commission's Report was ready, however, the war was over and many of the recommendations made by the Commission became of theoretical importance only, at least from the point of view of the Government. The Commission made no bones about the necessity of industrialisation in India. They deplored that the march of modern industry had hardly affected the great bulk of the Indian population which remained engrossed in agriculture, winning a bare subsistence from the soil by antiquated methods of cultivation. They discussed at length the deficiencies in the economic structure of India, stressing the unequal economic development that had taken place and that had caused dependence on external sources for many articles necessary for a civilised community, which were obtained largely by the bulk export of foodstuffs and raw materials in exchange. Many of the defects pointed out by the Commission were the common stock of Indian economic literature, but they had a special significance, because they were so clearly emphasised by a purely official Commission. India's dependence on imports of iron and steel and machinery, the proverbial "shyness" of capital, the lack of scientific technologists and engineers

[17] *Moral and Material Progress of India*, 1917-18, p. 25.

and similar drawbacks were narrated by the Commission. The causes of the comparative inefficiency of Indian labour were described in a more or less academic manner. The Commission gave as its final conclusion the fact that India was a country rich in exploitable wealth but poor in industrial accomplishment.

The chief recommendations of the Commission were as under:

(1) Firstly, they proposed improvements in the departmental organisation for the encouragement and control of industries. The creation of Imperial and Provincial Departments of Industries and of an Imperial Industrial Service, with decentralisation of the administrative work, was the main reform suggested. In addition the Commission proposed an Imperial Department of Stores with its headquarters at Calcutta and branches in each Province to control the placing of Government orders and contracts.

(2) Secondly, recommendations were made for the improvement of technical training and education, and also of factory conditions, including housing, sanitation etc.

(3) Thirdly, it was suggested that the scientific staffs of the industrial departments should be reorganised with a view to a more comprehensive system of research.

(4) Fourthly, the Commission recommended the grant of technical and financial assistance to industry, the encouragement of industrial co-operation, and the provision of improved railway facilities, including lower freights.

The Commission were expressly precluded from discussing the fiscal policy of India on the ground that "it was not desirable at that juncture to raise any question of the modification of India's fiscal policy." The exclusion of the fiscal question from the Commission's terms of reference was widely criticised as inspired by an indifference towards India's commercial interests. It was quite obvious that the Holland Commission was a time-serving proposition. As soon as the war was over, the zeal of the Government for the industrialisation of India cooled down and, apart from some purely administrative changes, nothing was done. Had it not been for the political ferment during the post-War years, it is doubtful whether the industrial policy recommended by the Commission would have been at all embodied in the subsequent legislation.

However, the British Government had committed itself to a policy of political advancement by virtue of its declaration in Parliament on August 20, 1917, and the various promises for the decentralisation of political power made from time to time. Political advancement was incompatible with lack of fiscal freedom and the power to develop the economic and industrial resources of the country. This fact was fully recognised by the framers of the Reforms Act of 1919. In this connection, the authors of the Montagu-Chelmsford Report remarked:[18]

"The theoretical free trader, we believe, hardly exists in India at present. As was shown by the debates in the Indian Legislative Council in March 1913, educated Indian opinion ardently desires a tariff. It rightly wishes to find another substantial base than that of the land for Indian revenues, and it turns to tariffs to provide one. Desiring industries which will give him Indian-made clothes to wear and Indian-made articles to use, the educated Indian looks to the example of other countries which have relied on tariffs, and seizes on the admission of even free traders that for the nourishment of nascent industries a tariff is permissible. We do not know whether he pauses to reflect that these industries will be largely financed by foreign capital attracted by the tariff, although we have evidence that he has not learned to appreciate the advantages of foreign capital. But whatever economic fallacy underlies his reasoning, these are his firm beliefs; and though he may be willing to concede the possibility that he is wrong, he will not readily concede that it is our business to decide the matter for him. He believes that as long as we continue to decide for him we shall decide in the interests of England and not according to his wishes; and he points to the debate in the House of Commons on the differentiation of the cotton excise in support of his contention. So long as the people who refuse India protection are interested in manufactures with which India might compete, Indian opinion cannot bring itself to believe that the refusal is disinterested or dictated by care for the best interests of India."

Although the celebrated authors of the Report neither understood nor wished to thresh out the implications of a protectionist policy for India in a truly scientific spirit, their candour as regards the nauseating influence of British commercial interests on the decisions taken by the Government of India in regard to tariff policy must be appreciated. It must be recorded that it was largely the liberalistic attitude

[18] Quoted by the Fiscal Commission, *Report*, p. 2.

taken up by Mr. Montagu which was responsible for the further implementation of this policy. In a speech made on the 3rd of March 1921, in reply to a Deputation from Lancashire on the Indian import duties on cotton, Mr. Montagu thus expressed himself in connection with the Fiscal Autonomy Convention, which was endorsed by the Joint Select Committee in its Report on the reforms proposals. He said: "After that Report by an authoritative Committee of both Houses, and Lord Curzon's promise in the House of Lords, it was absolutely impossible for me to interfere with the right which I believe was wisely given and which I am determined to maintain to give to the Government of India the right to consider the interests of India first, just as we, without any complaint from any other parts of the Empire, and the other parts of the Empire without any complaint from us, have always chosen the tariff arrangement which they think best fitted for their needs, thinking of their own citizens first."

III

The Fiscal Autonomy Convention

The next stage in the development of fiscal power was the so-called Fiscal Autonomy Convention which was recommended by the Joint Select Committee of both Houses of Parliament as part of its Report, on the 17th November 1919. The recommendation of the Committee was as follows:

"This examination of the general proposition leads inevitably to the consideration of one special case of non-intervention. Nothing is more likely to endanger the good relations between India and Great Britain than a belief that India's fiscal policy is dictated from Whitehall in the interests of the trade of Great Britain. That such a belief exists at the moment there can be no doubt. That there ought to be no room for it in the future is equally clear. India's position in the Imperial Conference opened the door to negotiation between India and the rest of the Empire, but negotiation without power to legislate is likely to remain ineffective. A satisfactory solution of the question can only be guaranteed by the grant of liberty to the Government of India to devise those tariff arrangements which seem best fitted to India's needs as an integral portion of the British Empire. It cannot be guaranteed by statute without limiting the ultimate power of Parliament to control the administration of India, and without limiting the power of veto which rests in

the Crown; and neither of these limitations finds a place in any of the statutes in the British Empire. It can only, therefore, be assured by an acknowledgment of a convention. Whatever be the right fiscal policy for India, for the needs of her consumers as well as for her manufacturers, it is quite clear that she should have the same liberty to consider her interests as Great Britain, Australia, New Zealand, Canada and South Africa. In the opinion of the Committee, therefore, the Secretary of State should as far as possible avoid interference on this subject when the Government of India and its Legislature are in agreement, and they think that his intervention when, it does take place, should be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party.

In a subsequent Chapter on the Constitutional Aspects of Fiscal Policy, we shall study the true meaning and content of this convention regarding the fiscal autonomy of India. Here it may be stated that although the actual constitutional scheme enacted by the Reforms Act of 1919 left loopholes for fiscal interference by the Home Government in an indirect manner, the Convention at least theoretically conceded the right of India to determine the fiscal policy best suited for her own needs, and thus paved the way to the developments which took place later. On the 23rd February 1921, a resolution was moved by the Honourable Mr. Lalubhai Samaldas in the Council of State and after amendment was passed in the following form:

"This Council recommends to the Governor-General in Council that His Majesty's Government be addressed through the Secretary of State with a prayer that the Government of India be granted full fiscal autonomy subject to the provisions of the Government of India Act."

With reference to this resolution of the Council of State, the Secretary of State in reply stated in his Despatch to the Government of India dated the 30th June 1921 that he had, on behalf of His Majesty's Government, accepted the principle recommended by the Joint Select Committee in their report.

It is to be noted that while the proposals for fiscal autonomy were taking shape, discussions were afoot in connection with trade relations within the Empire, and that this juncture should also mark the beginning of Imperial Preference after its systematic rejection by the Government of India for about two decades. In September 1919, when an

export duty of 15 per cent was imposed on hides and skins, a rebate of 10 per cent was granted to the Empire countries, which was a departure from the attitude of constant opposition till then maintained by the Government. In February 1920, on behalf of the Government of India, Sir George Barnes moved a resolution in the Legislative Council that a Committee of the Council should be appointed "to examine the trade statistics and to consider and report whether or not it is advisable to apply to the Indian customs tariff a system of preference in favour of goods of Empire origin." An amendment to this resolution was moved and accepted adding to the terms of reference of the Committee also "the best method of considering the future fiscal policy of India." Accordingly, the Committee was appointed and in the following month, the Committee reported their provisional conclusions on the subject of Imperial Preference, while as regards the future fiscal policy of India, they wrote: "We think that this can only be effectively enquired into by means of a Commission with power to take evidence in various parts of the country from all the interests concerned, from importers and exporters, producers and manufacturers, and from persons entitled to speak on behalf of the consumers."

IV

The Fiscal Commission

In spite of the above recommendation of the Committee of 1920, the Government did not take any steps to appoint a Commission to enquire into the question of fiscal policy, for nearly a year. On the 1st March 1921, therefore, the matter was again raised in the Legislative Assembly by Mr. Jamnadas Dwarkadas who asked whether, in accordance with the recommendations of the 1920 Committee the Government proposed to appoint a Fiscal Commission and, if so, what would be the terms of reference. In reply to this question the Government announced its decision that a Commission would be immediately appointed and would commence work in the following cold weather. Accordingly, on the 7th October 1921, the personnel and terms of re-

ference of the Commission were announced after consultation with His Majesty's Government. The terms of reference were "to examine with reference to all the interests concerned the Tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations." The personnel consisted of Sir Ibrahim Rahimtoola (President), Mr. J. M. Keynes (Vice-President), and ten Members, Messrs. T. V. Sheshagiri Ayyar, Ghanshyamdas Birla, Jamnadas Dwarkadas, R. A. Mant, Narottam Morarjee, C. W. Rhodes, Professor J. C. Coyajee, Sir Maneckjee Dadabhoy, Sir Edgar Holberton, and Sir Montague Webb. Owing to his engagements, Mr. Keynes's services could not by availed of by the Commission, but barring him all the other members could help the subsequent deliberations. The Commission presented its Report in July 1922 and it was published in the following September. It was not a wholly unanimous report, and although the members were agreed as to the factual background and the principal premises, they were sharply divided as to the means of achieving industrial development and the extent and method of protection to be given to industries. The majority consisted of all the four European members and Professor J. C. Coyajee and Sir Maneckjee Dadabhoy, while the minority consisted of the President and the remaining Indian members. As the policy outlined by the majority determined the subsequent course of fiscal arrangements in India, it is necessary to examine thoroughly the arguments advanced by the majority in support of their view. The minority's views will, then, be thrown into relief affording comparison and comment on the views of the majority.

The findings of the Fiscal Commission, on which the conclusions were finally based by them, may be set forth before we approach the main problem of fiscal policy. The Commission, after taking a rapid survey of the fiscal measures taken by the Government of India prior to 1922, described the economic position of the country at the time of the enquiry. They stressed the fact that no less than 224 million people, representing 72 per cent of the population, were registered at the Census of 1911 as depending for their liveli-

hood on pasture and agriculture, and remarked: "Whatever may be the developments on the industrial side it is hardly possible to contemplate a time when agriculture will cease to be, what it always has been in India, the occupation of the great mass of the people."[19] Turning to the industrial position, they observed that they found in the cotton and jute mills two important industries of modern type, a considerable diffusion of mechanical engineering represented by the railway workshops and the private engineering works which were springing up, the beginnings of an iron and steel industry, and a number of minor industries none of which had reached the stage of being a serious economic factor in the country. In addition there was a large production of mineral oil and of coal. Finally, scattered throughout the country, unorganised and handicapped by antiquated methods of marketing and finance was a vast army of handloom weavers. As regards the power resources, coal resources, though not on the whole of high quality were sufficient in quantity, while hydro-electric schemes were likely to play an important and growing part in future industrialisation. There were also possibilities of utilising Indian oil fuel. The "power situation" was therefore satisfactory. The supply of raw materials was more than adequate in view of the fact that India habitually exported large quantities of them. Moreover, there was an enormous internal market for the products of industries, while the system of transport was adequately developed to bear the strain of industrialisation. Finally, owing to banking facilities, education and a new atmosphere of modern business, "shy" capital was slowly coming out for investment. To sum up, India was an agricultural country which possessed undoubted natural advantages for manufacturing; she produced an abundance of raw materials; she had an ample potential supply of cheap labour and adequate sources of power; and the establishment of two great manufacturing industries showed that she was capable of turning these natural advantages to use. In spite of these natural advantages, the industrial development in India was

[19] *Report*, p. 13.

wholly inadequate and, in comparison even with less endowed countries, very slow. It was not at all commensurate with the size of the country, its population and its natural resources. There was no doubt, in their view, that further industrialisation on sound and economic lines would be of great advantage to the country. It would redress the excessive dependence of the country on agriculture, would facilitate the accumulation of capital resources, and would lead to the more advantageous employment of Indian labour and to its diversion from the rural areas where there was congestion to the urban areas where it would enjoy higher standards of life. They held that the effects of industrial development of agricultural conditions, on the public revenue and on the national character would be, on the whole, favourable. In the course of this discussion, the Commission laid low the fallacious fear that industrial development would be at the expense of agricultural production and food supply, expressing the view that there was already an undue pressure of numbers on the soil and hence that diversion of labour to the towns could not affect the crop production.[20]

Coming to the question of the choice of policy, the Commission enumerated the various grounds on which the popular case in favour of protection was based. In the first place, they noted the strong feeling among the public in favour of a revision of the tariff policy in the direction of protection. Not only the industrialists but practically all shades of public opinion unanimously voiced the demand for protection. This desire for fiscal protection was, in the opinion of the Commission, strongly reinforced by a consideration of India's past, which was rich in industrial experience and which had left a heritage of industrial aptitude behind. Secondly, the protectionist feeling was also strengthened by the consideration of the examples of other countries, which had developed their industries with the help of protectionist policies elsewhere. In 1879, Germany had definitely adopted a policy of protection and achieved astonishing progress within a few years. In 1881, France had followed suit. In 1899,

[20] *Ibid.*, pp. 19-25.

Japan had utilised her autonomy to establish a protective tariff on a very high level. The United States, one of the foremost industrial countries of the world, had had always a very high protective tariff since the Civil War. Finally, the British Dominions had also without exception utilised their fiscal freedom to shape their tariff policies on a protective basis. Even England, the classical home of free trade, had built up its textile industry with an initial dose of protection, measured by an import duty of as much as 65 per cent *ad valorem*, and it was not until she had attained a pre-eminence in the industrial field that she embraced free trade as her policy. And, again, after a long spell of *laissez-faire*, she had made several departures from that policy particularly in connection with the protection of the automobile industry (in 1915), the Safeguarding of Industries Act (1922) and protective taxation of the beet-sugar industry (1923).

The Commission then dwelt upon the theoretical aspects of the question. They accepted the validity of the doctrine of international division of labour. But, they argued, that principle had its limitations, particularly in view of the fact that in the competitive struggle an initial advantage might prove to be a permanent advantage, and a fully developed industry in one country might be able under conditions of unfettered competition to hamper the development of the same industry in another country possessing equal or even greater natural advantages. In this connection, they quoted Mill and Pigou, whose well-known endorsements of Friedrich List's arguments were particularly relevant. List's argument in favour of "wealth-producing capacity," which has been largely assimilated by the English classical writers, as especially applicable to the case of a backward agricultural country possessing potentialities of industrialisation and wishful to develop manufactures, was accepted by the Commission as the main ground for the system of protection proposed by them. They recognised that the country had to incur a present loss for the sake of a future gain, and therefore, considered that their main task was to assess the relative importance of the present loss and the future gain. However, it was unfortunate that the Commission (at least the majority) did not correctly appreciate the theory of Friedrich List

which was applicable to *a young nation as a whole* and not to an individual infant industry.[21] Even Mill, whom they quoted, had a young nation in view rather than a young industry as requiring protection. This initial error led the majority of the Commission to the elaboration of their restricted system of protection designed for the piecemeal development of individual industries. Again, it is surprising that they should suggest such a half-hearted kind of protection as Discriminating Protection for India, even after their exhaustive survey of the progress of other countries under more general and thorough-going systems of protection. The somewhat jejune meditations of the Commission on the theoretical aspects of protection might have passed muster at the time when the report was written. But in the present era of planned economies and unutilised economic resources, it is impossible to accept them as gospel truth. The modern technique of economic planning has laid low many a dogma of *laissez-faire*. It is becoming increasingly clear that maximum production, which is the resultant of the two-dimensional forces of maximum employment and maximum efficiency, can be achieved only with the concentrated energy of the State coordinating the fissiparous activities of individuals towards the common end with a drive and a well-thought-out programme. Moreover, the economics of idle resources suggests that, under certain circumstances, instead of their being a present loss and a future gain, there may even result *a present gain as well as a future gain*, if the productive resources of the nation are directed into the most fruitful directions by means of every instrument of policy at the disposal of the State. It is a commonplace, which even the Commission themselves admitted, that the free interplay of economic forces does not always lead to the optimum distribution and allocation of the productive factors in various alternative uses so as to maximise the output. This is specially the case

[21] *Cf.* Ohlin, *Interregional and International Trade*, p. 321, where Ohlin suggests the phrase "the infant country argument" instead of the "infant industry argument" and adds that "List had in mind something of this sort when he said that the wealth-creating forces are more important than wealth itself." See also Taussig, *op. cit.*

where countries (like the European countries) develop their industries by artificial means, such as protective tariffs, bounties etc, in spite of natural disadvantages, thus distorting the entire world scheme of international division of labour. By what token can we call such a situation either natural or conducive to the maximum welfare of the world as a whole? How can a backward country, full of industrial potentialities, overcome the resistance set up by established superiority of productive technique and by the advantages of an early start? The panacea of discriminating protection suggested by the majority could hardly meet the circumstances of the case. In describing the causes of India's industrial backwardness, the majority quoted the Industrial Commission who had laid stress on the factor that had operated to retard industrial development, such as the natural conservatism of the people, the inefficiency of labour, the absence of industrial and technical education, the lack of business enterprise, the shyness of capital for new undertakings and the want of proper organisation for utilising such capital as is available. However, these causes were not many but one and could be described in terms of a single expression viz., *the lack of of an industrial atmosphere*. There is a certain inertia in the economic life of a people which tends to perpetuate itself. Most of the defects mentioned by the Commission were so many points on a vicious circle that was industrial backwardness. The correct purpose of an industrial policy is to break that vicious circle and to set the ball of progress rolling. The majority pointed to the industrial aptitude of Indians in the past as a proof that, given adequate opportunities, they could develop the necessary efficiency and acquire the necessary skill and technique for industrial success. However, perhaps, it was not necessary to cite the past of India and her industries. The case of Japan has more than adequately proved that in industrial matters racial superiority is a pure myth. It is not so much a question of heredity, but of *environment*. It is wrong to suppose that Indians are physically or intellectually less fitted than any other people for industrialisation. It is all a matter of environment, both political and economic, and of the inertia of that environment. The majority, there is reason to believe, were

unduly apologetic in this connection; they should have realised that what one fool has done another can do as well, and that particularly in regard to industrial technique, it was merely a question of adopting a thorough-going policy so as to attack the problem of industrialisation on all fronts simultaneously.

The majority devoted a considerable time and trouble to discovering possible excuses in support of the halting policy of discriminating protection.[22] They mentioned the danger of political corruption, but admitted "that conditions in India are less favourable" to possibilities of corruption, in view of the variety of interests represented in the legislative bodies and the strength of the representation of the agricultural and landed classes. They might have also mentioned the important differentia of the Indian situation in that India had a foreign Government ever alert to deny even legitimate protection. They further referred to the possibility of combinations of manufacturers, but omitted to consider the fact that though protection could be the "mother of Trusts", Trusts were not always the result of protection, but a necessary adjunct of large-scale production. Moreover, there was nothing that the adoption of *discriminating* protection could achieve so far as either control or prevention of combinations was concerned. This could not be, in any case, regarded as a special drawback of *general* as distinguished from discriminating protection. At the most, it was a matter for the law of the land (including an industrial code) to deal with. Another possible disadvantage which was put forward as an argument against general protection was the fear of encouraging inefficient methods of production. However, it was clear that this had very little to do with the *character* of protection and quite a lot with the *degree* of protection. The majority claimed that the "temporary sacrifice, which even the most successful protection must entail, should be restricted to the minimum necessary to attain the object aimed at,"[23] and that for this discriminating protection would be the right thing. But it must be noted that in this connection, they implied "an indiscriminate high rate of

[22] *Report*, pp. 40 ff. [23] *Ibid.*, p. 41.

duties,"[24] and not the character of protection. It is indeed true that an unduly high rate might perpetuate inefficiency; and discrimination in choosing the right rate is no doubt necessary; but that is a matter of detail to be decided when the industry has qualified for protection. It goes to the height of the level of tariffs and not to the fact of protection. No protectionist in India has ever suggested that industries should be pampered by indiscriminately high rates of protection. One must admit, under the circumstances, that the majority of the commission got thoroughly muddled over the *special* meaning of discrimination which they built up through the triple formula, and the commonsense use of that term, which no doubt has largely influenced the application of protective tariff in every modern country. The same confusion was noticeable in the argument that discrimination would restrict the rise of prices and that it would curtail the period of burden. These also were irrelevant to the particular formula of discriminating protection which the majority foisted upon the Indian fiscal policy, in view of the fact that the matters of the rate and period of protection were both matters of detail, to be decided *after* protection was conceded. In fact, the protectionist in India will readily agree to this connotation of discrimination and there is ample proof that the minority of the Commission who also favoured some sort of discrimination,[25] would have accepted it.

What the minority principally objected to was the *piecemeal* application of the protective formula and compartmental treatment of each industry instead of a mutually helpful system of protecting mutually interdependent industries. The rates and periods of protection were matters for the Tariff Board to decide, while the requisite qualifications for applicant industries could alone be legitimately suggested by the Fiscal Commission. It was unfortunate that the majority were all along obsessed by the fear of "high or indiscriminate protection" adopted to "force the pace too

[24] *Ibid.*, p. 41.
[25] *Ibid.*, p. 151.

rapidly."[26] They further suggested—and in doing so went too far—that "the development of industries would be pushed beyond the limit of what is economically safe, and the resultant collapse would shake that very confidence of capital which it is one of the main objects of our recommendations to build up," and that "if protection were applied not only to an excessive extent, but in an indiscriminate manner, the uneconomic industries which would come into existence would be likely to unsettle labour in established industries, and to attract it from economic to uneconomic employment."[27] There is no doubt that the majority were working up their imagination to logic-proof conviction by these exercises in argument. If they were asked to mention one single case of a country which had *not* adopted the discriminating protection of their own or any other brand and consequently suffered from the "resultant collapse" shaking confidence all round, I think, they would probably have found themselves in the same collapsing predicament! Furthermore, with large masses of unemployed labour going to waste, it was really a discovery that "uneconomic" industries would *unsettle* labour in established industries!

Even more interesting than these acrobatics was their assertion that their variety of discriminating protection would "minimise the effect on the balance of trade." They assumed it almost as axiomatic that protection would lead to a "*general* rise of prices" and on that basis further argued that exports would be discouraged, even more than the imports, owing to the rise in the costs of production. All this was really very, very theoretical. In the first place, the majority did not—or rather could not—point to a single case in which a country, as a result of protection, whether high or low, had found that its exports had fallen even more than the imports. Secondly, the majority did not make even an attempt to go into the quantitative probabilities of the question. In economics, as in other sciences, conflicting sets of arguments are often found to be correct with reference

[26] *Ibid.*, p. 42.
[27] *Ibid.*, p. 43.

to the same situation, but it is the order of magnitude of each force or argument which decides the ultimate issue. In this particular case, as the majority themselves admitted, initially at any rate imports were likely to fall considerably, but as regards the effects of protection on exports, they were on less secure grounds. They could not give a single convincing or cogent reason why import duties on such things as steel, or sugar, or matches should raise the costs of wheat and rice and oil seeds to such an extent as to affect their exports. The "general" rise of prices, which they postulated, as a consequence of protection of industrial products, was far from convincing,[28] while the *modus operandi* of the effect of this rise on the agriculturist's costs, through the intermediary of wages, was simply balderdash, collected from incoherent text-books on the general controversy of protection *versus* free trade. On the other hand, they could not ignore the possibility of increased export of manufactures from India, and, therefore, could not prove decisively that the balance of trade would be adversely affected. "On the whole," they said, "from a consideration of these various tendencies it may be concluded that the immediate effect of protection will be some diminution both in imports and exports, but it is impossible to say whether the balance of trade would be altered."[29] Finally, they sprang the following curious argument on an unknowing public to crown absurdities with irrelevancies: "The present currency system in India depends on the maintenance of a favourable balance of trade. The less disturbance there is in the import and export trade, the smaller is the danger of upsetting the balance and thus we have one more argument for not embarking on indiscriminate protection."[30] In the first place, if it was a question of choice between greater national production

[28] The following statement of the majority throws some light on their notions regarding the diffusion of price changes: "It may, we think, be taken as the view accepted by economists that a general increase in import duties tends to produce a general rise in prices in a country and not merely a rise in the price of imported articles." (p. 32).

[29] *Report*, p. 43.

[30] *Ibid.*, p. 43.

and a favourable balance of trade,.the former and not the latter would be the desideratum. Thus, if it was upsetting the balance in a good cause, there was no risk of economic loss in it. But apart from this extreme argument, in the first instance, the majority of the Commission were far from proving that the protective duties would make the balance of trade *less favourable* or actually adverse. If the duties reduced the imports more than the exports, of course, the currency situation would have materially improved, making large sterling balances available to the Government to meet the home charges. If on the other hand, imports and exports were equally affected, the currency position could not have deteriorated. Thus, only under the third possibility of a fall in exports greater than that in imports would the contingency of monetary disturbance arise, and this was a possibility on which the majority could not deliver themselves adequately. In fact, modern fiscal theory definitely looks to tariffs as a method of *correcting* an adverse balance of trade: it would be a novel idea that tariffs could actually worsen the balance. It is clear that monetary disequilibrium was a meaningless bogey erected on the basis of a faulty reasoning. When countries, in modern as well as early periods, have actually utilised import duties as a measure of *correcting* the balance of trade, and distinguished economists like Keynes have justified protection for the specific purpose of such correction,[31] it would be futile to pursue the matter further.

We, therefore, shall pass on to the final summary of the majority's rationale of discriminating protection: "Our conclusions therefore are that in the interests of the consumers generally, and particularly of the masses of the people, in the interests of agriculture, in the interests of steady industrial progress, and for the maintenance of a favourable (sic) balance of trade, the policy of protection which we recommend should be applied with discrimination, so as to make the inevitable burden on the community as light as is

[31] *Cf.* Keynes, *Treatise*, Vol. ii, pp. 188-9; *General Theory*, pp. 333 ff; also see Chapter I, footnote 17.

consistent with the due development of industries, and to avoid abrupt disturbances of industrial and commercial conditions."[32] That the masses of people would not be much harmed by protection but that its burden would fall mostly upon the middle classes was the majority's own admission (*vide* Report, p. 38). As regards agriculture, there never has been nor will there ever be any fundamental conflict of interests between agriculture and industries in a country where such industries hold out the definite prospect of providing ready markets internally for agricultural products and of relieving the intense pressure of numbers on the soil. This, again, was a fact acknowledged implicitly by the majority (*vide* Report, pp. 22 ff.). A "favourable" balance of trade, as a consequence, was an unwarranted and illegitimate extension of the neutral position which the majority took as regards the effects of protection on the balance of trade. Under the circumstances, to suggest that discriminating protection would give a "favourable" balance of trade, while *general* protection would not was a deliberately surreptitious innovation.

By now, it will have been clear that the majority had one thing in mind and were harping on quite another. Practically all protectionists from List, Schuller, and Schmoller down to Keynes have accepted the viewpoint that excessive protection of industries by high rates of tariff and long periods of their duration creates a host of economic and political evils. Nor have the Indian economists who have supported a general system of protection countenanced any proposals for a high and indiscriminate protectionism in that sense. The question has been not one of the level of tariffs to be imposed, but one of the conditions and qualifications necessary for protection. From the foregoing survey in Part I of this book, it should have been obvious that most of the industries, which have been recipients of protection and which have latterly made good, have received only moderate percentages of duties and were generally satisfied with them. But it is the formula of discrimination set up by

[32] *Report*, p. 43.

the majority which has harassed the applicant industries with its unnecessarily restrictive provisions and has created bottle-necks and hurdles for them, unheard-of in the history of the world's protectionism. That formula will be more thoroughly examined in the next Chapter in the light of past experience; here it may emphatically be stated that in the erection of that formula the zeal of the majority to achieve the laudable purpose of discrimination went too far. If they had left the matter of tariff levels and periods of protection for the Tariff Board to decide, without restricting its discretion in any way, it would have met the purpose much better.

The principal reason why India lacks modern industries is the absence of an industrial atmosphere, which includes the absence of scientific and technical education and research, of business confidence among the industrialists and of a determined policy on the part of the Government of the country in support of a rapid and comprehensive industrialisation. Thus remarks Mr. Buchanan, in his impartial survey of business enterprise in India:[33] "A governing group which understood its people and really cared for their welfare should make an effort to teach them better ways of earning a living. This the Government of Japan tried to do and, as a result, the Japanese are about two generations in advance of India. While Indian craftsmen were literally starving, unemployed, Japanese of the same group were learning to operate modern machinery. Often this was set up by the government itself for demonstration to both capitalists and labourers; and as soon as possible the home market was preserved to the home producers. There have been anomalies in the Japanese protective system but it has *worked*." The confidence that a paternal government inspires amongst the industrialists of a country is especially valuable in the case of a backward country which has to face adverse competition on all sides. Under the circumstances, a go-ahead policy of generous protection would be far more helpful to industrial progress than a cautious nibbling, or playful tinker-

[33] *Capitalistic Enterprise in India*, p. 471.

ing with protection. As we shall see in the next Chapter by setting up the formula of discriminating protection and by suggesting the most dilatory and meticulous procedure, the majority of the Fiscal Commission only strengthened the hands of a bureaucratic government steeped in the convenient cult of free trade.

Apart from the active and whole-hearted support of the government of the day, the creation of the right atmosphere for industrialisation requires the cumulative growth of mutually interdependent industries. When List stressed the importance of "wealth-producing capacity," he principally implied this. In India, the general system of production is marked by low standards of productive efficiency. This is largely due to the fact that the staple industry of the country has been Agriculture; and where a country has merely an agricultural tradition, it is unlikely to avail itself of the progressive achievements of science. Science and industry, in the modern world, are concomitants of each other, and it is not a mere matter of chance that the highest progress achieved even in the agricultural field has been in countries where industrialisation has taken a firm root. The greatest contribution that protection can make to the Indian economy is to raise the standards of productive efficiency, and that is an advantage worth purchasing with even ten times the sacrifice of present consumption which is so precisely calculated by the majority of the Commission and other semi-protectionists and free-traders. It has been already stated that maximum production is the resultant of the twin forces of maximum employment and maximum efficiency. India no doubt suffers both from unemployment and inefficiency, but, I think, *the loss due to inefficiency is many times greater than the loss due to unemployment*. Assuming that 25 per cent of the working population of India is habitually unemployed and underemployed,—and if we include the educated middle class unemployed, the uneducated unemployed from the villages, and the wandering beggars and nomads, this cannot be by any means an under-estimate,—the present national income is being produced by only 75 per cent of the working population. Approximately then (and ignoring the possibilities both of diminishing as well as increasing returns),

the annual loss of national income might well be in the neighbourhood of Rs. 750 to Rs. 1000 crores. But the loss due to inefficiency as compared to this can be shown to be several times greater. The average *per capita* income of the Indian is about one-fifteenth that of the average Westerner, which means that the unreclaimed wealth which India is losing annually due to low efficiency is fourteen times the present national income, between Rs. 28,000 crores to Rs. 42,000 crores,—a staggering figure indeed. There is no reason to suppose that these calculations are chimerical. The national incomes of less endowed countries like Japan, Germany, France and England, or those of countries like Russia and the United States, which happen to possess a plenitude of material wealth not incomparable to that potentially realisable in India, show that such great heights of productive capacity are quite within the range of feasibility. It will be apparent from the above analysis that *the efficiency dimension is very much more important than the employment dimension in the case of India*. Therefore, wealth-producing capacity, of which List and his disciples spoke with so much fervour, has a special meaning in the case of a backward, agricultural country with great potentialities of industrialisation like India. Protection of the Indian industries must be regarded not as an instrument of *industrial* policy alone, but as one assisting *the economy as a whole*. It is from this point of view that a full-fledged system of protection, which does not make nice calculations of burdens and temporary losses, has an immense utility to the Indian economic structure.

It was not, however, so much in the enunciation of the character of the system of production to be adopted that the majority of the Fiscal Commission betrayed an utter lack of vision. In the actual details of their scheme of protection they did much more harm to the cause of Indian industrialism. In the first place, they laid down as a "more definite principle" that protection should not only be refused in the case of "embryo" industries but also in that of industries "producing a very small proportion of the needs of the country." They said, "To protect by import duties an industry which supplies only 1 per cent of the requirements of the country is an extravagance," imposing "a great and unnecessary burden on

the consumer."[34] This showed their real attitude towards industrialisation. The history of protectionism in Western countries is replete with examples of industries of the embryo type brought into existence and developed with the artificial aid of temporary protection. There is little reason to suppose that any of those countries have been any the worse for it. The history of the growth of Indian industries also suggests that a number of minor industries have come to life in the nursery of revenue duties, and then sought protection. From the strictly theoretical standpoint there is little difference between an unscientific and purposeless revenue tariff and a scientific protective tariff, so far as their consequences upon the growth of industries are concerned except that the latter is far better. This means that in a country where there is a plenitude of natural resources and other advantages, just owing to the inertia of economic life, sometimes industries can be developed only when they get some sort of fillip. This is particularly so in an "infant country." The very fact, moreover, that an industry has sprouted in spite of adverse foreign competition and without extraneous aid, is, in the case of minor industries catering for even a small proportion of the market, sufficient testimony of the possibilities of a successful application of protective tariff. Embryo industries aside, such other industries of potential importance should by every means be assisted on to success. It is difficult to agree with the majority of the Fiscal Commission that protection in the case of such industries would be an "extravagance." Further, it is difficult to understand the significance of the expression, "extravagance" in this connection. The consumer's burden is largely a matter of internal redistribution of wealth, while considering the national economy as a whole, protection leads to a re-allocation of national resources from old into new channels (*i.e.*, if there is already full employment) or to the provision of additional employment to idle resources (*i.e.*, if the economic system is working below full capacity). There is no question of extravagance here from the standpoint of

[34] *Report*, p. 48.

the community as a whole, especially in view of the fact that wealth-producing capacity (in the case of an infant country) is likely to increase enormously as a result of the system of protection. Underlying the entire concept of the consumer's burden is the idea that there is a present "loss." But in the case of a country possessing unutilised resources, this fear of a loss has been already shown to be fallacious. We shall be considering the implications of this conclusion fully in a subsequent Chapter dealing with the Consumer's Burden. Therefore, it may not be worth while to pursue the matter further in this place.

To return to the question of the choice between free trade and protection, the majority of the Fiscal Commission voted in favour of Discriminating Protection, and with a degree of self-assurance said: "We recommend *in the best interests of India* the adoption of a policy of protection to be applied with discrimination *along the lines indicated in this report.*"[35] They further elaborated the scheme of protection by laying down the general conditions to be satisfied by an industry before protection could be granted. Those conditions were stated by them as follows:[36]

(1) The industry must be one possessing natural advantages, such as an abundant supply of raw material, cheap power, a sufficient supply of labour, or a large home market. Such advantages will be of different relative importance in different industries, but they should all be weighed and their relative importance assessed. The successful industries of the world possess certain comparative advantages to which they owe their success. No industry which does not possess some comparative advantages will be able to compete with them on equal terms and therefore the natural advantages possessed by an Indian industry should be analysed carefully, in order to ensure as far as possible that no industry is protected which will become a permanent burden on the community.

(2) The industry must be one which without the help of protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country. This is an obvious corollary from the principles which have led us to recommend protection. The main object of protection is either to develop industries

[35] *Ibid.*, p. 26. Italics mine.

[36] *Ibid.*, pp. 45 ff.

which otherwise would not be developed or to develop them with greater rapidity.

(3) The industry must be one which will eventually be able to face world competition without protection. In forming an estimate of the potentialities of this condition being fulfilled the natural advantages referred to in condition (1) will of course be considered carefully. The importance of this condition is obvious. The protection we contemplate is a temporary protection to be given to industries which will eventually be able to stand alone.

Detailed criticism of these conditions is deferred to the next Chapter, where it would be convenient to discuss it in the light of the Tariff Board's experience in their application to actual industries. Likewise, consideration of the Fiscal Commission's observations regarding Imperial Preference, foreign capital and the constitution and procedure of the Tariff Board will be found in later Chapters in their appropriate places.

Increasing R-I.

whole market

Apart from the conditions of the "triple formula," the majority of the Commission also enunciated certain additional factors as strengthening the case for protection. In the first place, an industry in which the advantages of large-scale production with resultant economies of diminishing costs could be achieved, was to be regarded as specially suitable for protection. Secondly, an industry, in whose case there was a probability that the whole needs of the country could be supplied in course of time, was also to receive special consideration, because in such a case "the burden on the consumer determines automatically," by internal competition and cessation of foreign imports. Finally, industries essential for national defence or of special military value, as well as basic and key industries, were recommended for protection without the fulfilment of any of the conditions mentioned above. In the first category, they included industries like iron and steel, leather and leather goods, copper, zinc, sulphur, ammonia, refined glycerine, mineral jelly or vaseline and rubber goods; and in the latter category, industries, like iron and steel, which would stimulate the establishment of other industries dependent upon them, as also industries whose products were utilised as raw materials by a number of industries and are of such importance that any interference with their supply might being other industries

defence & key

to a standstill, *e.g.*, certain chemicals and minerals and lubricating oils. In this connection, they mentioned the British Safeguarding of Industries Act which classified certain industries as key industries. One wishes however, that the majority had given more thought to the implications of that Act.

As regards the measure of protection to be granted, the majority of the Commission enjoined the Tariff Board to take account of the relative cost of production in India and in foreign countries, but felt that this factor in itself would not supply the answer to the proper rate of protection, for a high cost of production in India might be due in part to immediately remediable causes, and that for that reason it would be most inexpedient to recommend a rate which might stereotype inefficiency. The principle of "equalisation of costs" which was for long unsuccessfully adopted in the United States was not recommended as the criterion of rate-fixing but only as a subsidiary consideration, which according to the majority, would also "be some guide to the Board as to whether an industry fulfils the primary conditions laid down for protection."[37] As will be seen later, the Tariff Board developed its own technique of fixing the rates of duties, on the basis of comparisons of "fair selling prices" of indigenous products with the "import prices" of foreign products, and calculated the rates not only with reference to the immediate conditions obtaining at the time of enquiry but also with reference to the probable future developments in each case regarding reduction of costs etc.

In conclusion, the majority of the Commission observed that the industrial development of India would not take place at the expense of British interests and that there was no real antagonism between the interests of Britain and India in this respect. The reason they gave was as follows: "India for many years to come is likely to concentrate on the simpler forms of manufactured goods, and these are precisely those in which the United Kingdom has the smallest interest...The standard of living in India at present is low.

[37] *Ibid.*, p. 49.

The poverty of the people confines them to the satisfaction of the most elementary wants. Growing prosperity will bring a wider range of needs, and these will inevitably be translated into a more extensive demand for British goods."[38] The same apologetic attitude towards protection and the same solicitude for British interests marked the majority's observations in connection with Imperial Preference, when they stated: "We do not forget that the United Kingdom is the heart of the Empire, that on its strength depends the strength and cohesion of the Empire, and that its strength is bound up with the prosperity of its export trade, which has enabled a small island to find the resources which bind together and uphold the great Commonwealth of Nations known as the British Empire. Unless the United Kingdom maintains its export trade, the heart of the Empire will weaken, and this is a contingency to which no part of the Empire can be indifferent."[39] Thus did the majority enthuse over the virtues of imperialism, while the fiscal policy of India was treated by them as a subsidiary affair, which must accommodate itself to the needs of the United Kingdom's trade. As regards India's probable concentration on the simpler forms of manufactured goods, it was deplorable that this view of the matter coloured the majority decision in regard to the choice of fiscal policy. In actuality, it has been the case that India has during the last decade or two produced not only the simpler form of goods, but also some of the higher classes of goods; and the fiscal policy, recommended by the majority of the Commission, has been the chief factor which stood in the way of the development of the higher type of industries. It is apparent that the majority's effort was mainly directed towards the framing of a fiscal policy which would achieve such a measure of industrialisation as would not conflict with the interests of Britain. The fact that the majority consisted of all the European members of the Commission and only two Indians (one of whom was a free trader by instinct and in outlook) makes it almost certain that this

[38] *Ibid.*, p. 148.
[39] *Ibid.*, p. 121.

was the case. As regards the minority, they wholly consisted of Indians intent upon national development and free from any imperialist bias to mislead them into any compromises. The fiscal history of India has been throughout a history of events in which the interests of India have been subordinated to the interests of the Imperial Power. Once more, this fact was borne out in the decisions of the majority of the Fiscal Commission.

V

The Views of the Minority

The reasons which moved the minority to write a dissenting minute were stated by them in the following words:

"(*a*) The main recommendation has been hedged in by conditions and provisos which are calculated to impair its utility.

(*b*) In places, the language employed is half-hearted and apologetic.

(*c*) We are unable to agree with the views of our colleagues on Excise, Foreign Capital, Imperial Preference and the constitution of the Tariff Board."

It is wrong to suppose that the minority were in favour of an orgy of indiscriminate protection, implying inordinately high rates of tariff and prolonged periods of protection, as is made out by some of the critics of their views. The minority also stood for discrimination, but only of the sensible variety which does not put unnecessary hurdles in the way of industrial growth. Their disagreement arose from the fact that the policy of protection recommended by their colleagues was qualified by the words "to be applied with discrimination *along the lines of the report*." They stated that they did not know of any single country in the world, including the British Dominions, which had so qualified the policy of protection. India, they pointed out, had an abundant supply of raw materials, a plentiful supply of labour, adequate capital and a large home market, and all the requisites for industrial growth and development were present to an even greater extent than in many countries which had, without such advantages, attained a commanding position in the industrial world. There appeared to them no reason why

India should not reach a similar if not a higher position. However, such a goal could only be reached by a whole-hearted co-operation between the State and the people. They rightly pointed out that the conditions laid down for applicant industries were unnecessarily stringent, and would entail considerable delay in giving effect to the policy of industrialisation and would not produce adequate results. In view of the developments that have taken place in the industrial field, during the last sixteen years of protectionism, one cannot help feeling that the minority were not far from the right in their forebodings. It is indeed a topsyturvydom of the situation that the critics of Indian protectionism, instead of admitting the minority's accuracy in so correctly forecasting the probable trend of events, suggest the insufficient development of industries in India as itself an argument against protection! The minority further pointed out that the industrial backwardness of India was in no way due to any inherent defects amongst the people of India, but that it was artificially created by a continuous process of stifling the inborn industrial genius of the people. They quoted chapter and verse to prove that this had been the case. I have touched upon this aspect of the matter earlier. It may be added here that the minority were perfectly right in their diagnosis of India's troubles. They concluded their observations[40] on the question of general policy in the following words, which are as applicable today as they were in 1922:

> The economic problem of India must at least now be examined in a spirit of broad-minded statesmanship. India inhabited by a fifth of the human race can be of tremendous value, economic and political, both to herself and to the Empire, if development proceeds on lines best suited to her own conditions. If in the process of her attaining her full stature, there is any risk to the immediate interests of the British manufacturers, that risk must be faced. We think that the risk is remote, not because India is likely to concentrate "on the simpler form of manufacture" but because by an intense effort at industrialisation, she will grow rapidly prosperous and her requirements of manufactured goods will largely increase. The growing prosperity which will result from the rapid development of industries will create increased demand for manu-

[40] The minority's views on Imperial Preference and other questions will be discussed elsewhere.

factured articles, both for those which she can manufacture herself and those which she must import, and the trade relations between the two countries will be put on a sound economic basis, mutually beneficial to both.

CHAPTER XVII

DISCRIMINATING PROTECTION IN RETROSPECT

A poor and weak and backward country, a Government that is irresponsible to legislative representation, irresponsive to public opinion and unamenable to logic or equity, a body of self-interested bosses and masters at "home" directing affairs in a subject nation, a vitiated formula of protection and a score of bottlenecks and hurdles deliberately created to defeat and disrupt every sign of industrial progress,—these are a poor equipment for the development of industries. As the tree, so the fruit. If the country is not humming today with industrial prosperity, the credit for such a situation must go, so far as fiscal policy is concerned, to the halting and incoherent formula devised by the majority of the Fiscal Commission and used with a surprising degree of indiscrimination by the Government. If there has been any development of industries at all, it cannot be said to have taken place because of the fiscal policy but mainly in spite of it. It must be stated emphatically that no country in the world ever set itself such stiff standards for the grant of protection. It has been a self-denying ordinance imposed on India against her will by the requirements of an imperialistic commercial policy whose hypotheses were conveniently supported and glorified by the virtuosities of *laissez-faire*. Neither the history of other protectionist countries, including the United States, Germany, France, Japan, Italy and England (of the 18th century and of the last two decades) nor that of India suggests that in thus labouring under the weight of these restrictions we have been either wiser or wealthier than the peoples of other protectionist nations.

I

The Character of Indian Protection

In the previous Chapter, we noted how the Fiscal Commission (majority), in their anxiety to prevent unbridled protection in India desired some measure of discrimination and, in recommending this, saddled the country with a formula which was not "discrimination" but only rigorous restriction. As we shall notice in a subsequent Chapter on Tariff Machinery and Procedure, the restrictive character of Discriminating Protection was made doubly more restrictive by the dilatory and difficult procedure laid down, finally concentrating power in the hands of the Commerce Department to do as it thought fit, after sitting in judgment on the decisions laboriously arrived at by the Tariff Board. Thus after this *reductio ad absurdum* of protection was made available to Indian industries, it was obvious that it would be due to either luck or some fundamental reasons,[1] if any industry succeeded in deriving the benefit of protective duties after passing through the sifting process so elaborately arranged. In another section in this Chapter, we shall examine analytically the proportion of industries which could thus survive the ordeal. Here it becomes pertinent to enquire into the precise character of the protection granted to the various industries in the name of Discriminating Protection. To be sure, in each case, the Tariff Board almost religiously applied the triple formula investigating the qualifications of each industry; but this fact by itself is not sufficient to support the conclusion that the protective duties suggested and imposed were necessarily of a "substantive" or developmental character. The theory of Discriminating Protection has been that an infant industry, which fulfilled the necessary qualifications, should be granted protection over a period of years, so that it should get some respite and be able to develop itself to a position of equality with its competitors and ultimate stability when protection is withdrawn. The function of Discri-

[1] Some of these special reasons have been explained later. cf. Section ii.

minating Protection was thus mainly *developmental*. But the operation of such a scheme implies normal conditions in the world trade, absence of dumping or monopolistic discrimination, free world markets etc. Unfortunately so far as the Indian industries are concerned, as we shall see later, a variety of disturbing factors have been in operation throughout the period under consideration, *viz.*, 1923-40. These disturbing influences complicated the calculations of the Tariff Board and gave an impression that what was virtually a system of *safeguarding* duties, having the effect of enabling needy industries to get over temporary difficulties of fairly long duration, could be legitimately regarded as *developmental* protection.

Barring a few industries, in the case of most industries, protective duties were imposed ostensibly for the purpose of developing or "nursing the infants." But in actuality, what has happened is that the duties have merely nullified the adverse effects of dumping, "unfair competition," discriminating monopolies, market gluts due to world depression, etc. The Fiscal Commission (majority) had recommended that the Tariff Board should in each case investigate the comparative costs of production in India and foreign countries, with a view to arriving at the necessary measure of protection. However, the Tariff Board found insuperable difficulties in correctly estimating the costs of production in foreign countries. Therefore, the Board had to devise the technique of comparing "fair selling prices" with the prices of imported products. Even then the Board could not always get correct information about the import prices. In some cases, the Board had to make arbitrary allowances, additions and subtractions in the computation of figures; in others, the prices were so unsteady and fluctuating, owing to their manipulation by foreign industrial combinations, that scarcely any value could be attached to the quotations as reliable criteria for the measure of protection required. Nor was it always a case of monopolistic manipulation of import prices. Sometimes, owing to the market gluts, foreign producers had no option but to get rid of their surplus production wherever there were free markets available. In any case, the procedure of the Tariff Board, adopted no doubt

in good faith, had the consequence that protection was not based on the fundamental differentiating factors, but on the situations created by artificial forces like dumping, depression, unfair competition and exchange depreciation. This is not to be regarded as an unfavourable criticism of the Tariff Board's methods of work, but only as evidence that in actuality the results of that procedure were what they have been stated to be above. Of course, the prices of imports, in so far as they were artificially brought down, also indicated in an inclusive manner the minimum costs of production of the foreign manufacturer; and, therefore, the protection granted to counteract the effects of low import prices necessarily included an element of protection strictly due to the comparative disadvantage of a fundamental character. It is impossible, however, to say what was the extent of this element of protection which perhaps was *submerged* in the total rate of duty necessitated by the foreign manipulated price. Still, it is important to emphasise this aspect of the matter and to bring out clearly the fact that, if it were not for the series of artificial circumstances which dogged the path of Indian industries, perhaps our industries could have either dispensed with protection altogether or would have been able to develop themselves with extremely moderate duties. Thus, what was merely safeguarding protection was imagined to be Discriminating Protection and passed muster as such.

Let us take a brief survey of the various industries which were granted protection, from this viewpoint. While studying the case of each industry, we have already observed how in a number of instances, protection was designed and employed to enable the Indian producers to face unfair foreign competition. However, at the risk of some repetition, it is proposed to bring together the relevant information. To take the case of the steel industry first, in their 1924 report the Tariff Board clearly admitted that the necessity for protection arose from several causes not directly connected with the "infant-industries" argument: (1) The enormous expansion of the heavy industries which took place during the war, with the consequent problem of "excess capacity;" (2) the establishment of thoroughly modern plants in the place of the old ones destroyed by war, in Belgium and France;

(3) the general depreciation of the continental exchanges; (4) the intensification of competition due to contracting demand after 1920; and (5) some element of "dumping." Even after 1924, these factors continued in their force unabated; there was a further depreciation in the Continental exchanges (ranging between 25 to 75 per cent of the pre-war parity), on the one hand, and a steady rise in the rupee-sterling ratio, on the other. In their 1925 report, also, the Board made their supplementary recommendations on these very grounds. In 1927, the Tariff Board again noted that the protection actually received by the Tatas had enabled them to survive 'a most difficult transitional period.' The Tariff Board also quoted, on this occasion, the Commerce Member's remark that "the general principle was......that protection afforded should be the minimum required to tide the industry over this transitional period." We have noted in the Chapter on Steel that various kinds of dumping have always prevailed in the steel trade, including ordinary dumping, exchange dumping, sales dumping, freights dumping, bounty dumping and rebate dumping. The Tatas were able to prove in 1927, as also on subsequent occasions, that dumping was actually practised not only by the Continental cartels but also by the British firms. Again, after 1931, the depreciations and devaluations of exchanges which took place on the Continent were also artificial impediments in the way of the Indian steel industry. In 1934, the Tariff Board admitted that the scheme of protection then designed was mainly directed against the Continental steel cartel which had been making sporadic changes in prices in an attempt to undersell the Indian producer by means of "indeterminate and often uneconomic prices." On top of all these disadvantages, we have also noted what a serious disadvantage was imposed upon the steel industry by the unfavourable freights policy pursued by the railways. We have been told that the steel industry has been the "prize-boy" of the Government of India and the Legislature. In view of the foregoing facts, it is clear that the steel industry obtained only "consolation prizes" largely in the shape of safeguarding duties, which were the minimum necessary under the circumstances and which any Government interested in the industrial stabili-

ty of the country would, in any case, have adopted. The steel industry has, contrary to the forebodings of adverse critics, succeeded in developing itself into one of the most efficient steel organizations in the world, and that too much sooner than was expected. If it has been a "prize-boy", it has no doubt richly deserved the "prizes" awarded.

Coming to the case of the cotton industry, we observe a more or less similar situation. In the first Tariff Board enquiry, it was found that the difficulties of the cotton industry were largely caused by (*a*) factors of a world-wide operation involving a disequilibrium between the prices of agrarian and industrial products and a localised crisis in Bombay following the boom of 1921-23, (*b*) the depreciation of the Japanese exchange and unfair competition due to inferior labour conditions in Japan, and (*c*) the stabilisation of the rupee at 18*d*., imposing "an undoubted temporary handicap on the industry." We have examined these factors at considerable length in the Chapter on the Cotton Industry, and we have noted that in spite of these conditions clearly admitted by the Tariff Board, protection was refused to the cotton industry in 1927. Subsequent measures up to the Tariff Board enquiry of 1932 were largely the outcome of financial difficulties experienced by the Government. It is to be noted further that the 1932 enquiry itself was undertaken at the instance of the Government which directed the Board to investigate the allegation that there was exchange dumping from Japan. In 1932, the Tariff Board admitted the claim of the industry to *substantive* protection, on the ground that the industry was one of sufficient national importance. But, as in the other cases, the measure of protection was dictated by the adverse and unfair competition of Japan and the temporary disturbances set up by the world depression. In 1930, Sir George Rainy stated that the tariff of that year had the limited objective of "the preservation of the industry or an important section of it and not its ultimate development." There is no doubt that the character of the subsequent measures also had the same objective implicitly if not explicitly.

Let us see how the other industries stand in this respect. In the engineering industry, the Tariff Board unequivocally

stated that protection was necessary against dumping and unfair competition, and that certain cases (such as the tender of Messrs. Dorman, Long & Co., for the construction of the Nerbudda Bridge in 1933) of underselling were brought to its notice. Protection was no doubt recommended on the ground that the engineering industry was inseparable from the parent industry, steel, but when substantive protection was later found to be unnecessary, "unfair competition" still remained the chief ground for the continuance of protection. Moreover, to some extent, the duties imposed were "compensatory" or equalising in character, in view of the protective duties on the raw materials, viz., steel products. In regard to the tinplate industry, it was admitted by the Board in 1926, that there was a prolonged fall in the prices of tinplate, owing firstly to the collapse of the Continental exchanges, secondly to the fall of the Welsh prices of tinplate caused by the collapse of the Welsh Tinplate Manufacturers' combination leading to a stampede, and thirdly to the rise in the rupee-sterling ratio which had created a new disadvantage of about 12½ per cent for the Indian producer. Similarly, in the 1934 enquiry, the Board again noted that the need for protection arose largely from the consistent attempts of the American and German producers (the latter working under a system of export subsidies) to undersell the Indian manufacturer in his market. This dumping was no doubt necessitated by the world-wide depression in the industry and the consequent glut, but that hardly meets the argument that dumping was present and was responsible for the extension of protection granted in that year. Similarly, in the case of the wire nails industry, the Board found that the low price of imported wire-nails was partly due to the subsidies granted by the Steel Syndicate of Germany to the exporters of nails, although both the Board as well as the Government refused to take action on the ground that the industry had not been able to prove the exact extent of the influence of export subsidisation upon the import prices! Protection was, however, afforded for other reasons, at a much later stage. Again, the cast iron pipes section of the iron industry was granted protection for the exclusive reason that there was an unfair and abnormal competition from Japan.

The case of the silk and sericultural industry was similarly based on the fact that the imports of silk from Japan and China were assisted by the depreciation of the Chinese and Japanese exchanges and, what is more important, by the active financial assistance granted to the silk exporters by the Governments of the two countries. So far as the silk-weaving section was concerned, the Board recommended "compensatory" protection only. However, as we have seen, the Government themselves declared that neither the silk nor the silk-weaving industry was in need of any substantive protection, but only in need of "safeguarding" against the artificial factors that had arisen since the beginning of the depression; and they accordingly made calculations on the basis of a so-called normal base year, which was wrongly taken to be 1928. What little protection has been afforded to the sericultural and silk-weaving industries cannot be called developmental or substantive at all. The case of the woollen industry was not far different and we have seen that the difficulties of the industry were entirely. due to the adverse rupee-sterling exchange, the depreciation of the Japanese yen by more than 50 per cent, the depression and, last but not least, the aggressive trade policies of India's competitors. As, in spite of these handicaps, for a very flimsy reason, the Government withheld protection, the question does not arise as to the character of protection, but the conditions of the industry might be noted in view of the fact that the Tariff Board had recommended protection. Turning to the match industry, the Tariff Board in 1927-28 observed that "the need for protection arises entirely from two causes, viz., that the Swedish Match Company are importing matches at a price below the economic level and that there exists at present a very marked prejudice against Indian matches." In the match trade, the dumping activities carried on by the Swedish Trust have been a nauseating feature both before and after protection, though after protection it took the shape of unfair competition internally. In the Chapter on Matches, we have very fully considered the ramifications and consequences of the Swedish match "octopus", and we have seen what were the results of the protection granted so far as the Indian section of the industry is concerned. We need not, therefore,

pursue the matter further here. Among the minor protected industries, the case of the magnesium chloride industry has been pre-eminent in this respect. It has been noted how after the war Germany resumed exports of magnesium chloride at cut-throat prices, which were further reinforced by the depreciation in the mark exchange. Even in 1929, when the claim to protection of the industry was admitted by the Board, the Board stated that the abnormally low prices of imported magnesium chloride were due to the deliberate policy on the part of the German Syndicate to coerce the Indian producers who had refused to come to terms with it. The Board found that the price quoted for the German magnesium chloride was lower in India than in other countries in spite of the freight disadvantage in exporting the material to India. Further, when the case of the industry was referred to the Board in 1937, the Board gave the warning that if protection were withdrawn, there would be the immediate danger of dumping from Japanese and German producers, which would lead to the virtual extinction of the industry, and the Board explicitly stated that, barring the possibilities of dumping, the industry could eventually stand without protection. Likewise, the gold thread industry had to face injurious and uneconomic competition on the part of the French producers, who were helped considerably by the rise in the rupee-sterling ratio, the fall in the franc and by State subsidisation. Finally, it may be noted that the Safeguarding of Industries Act of 1933 was avowedly a measure of the safeguarding variety, and although it was a belated reparation it was an admission on the part of the Government that dumping of a very serious nature existed.

Only in the case of two or three industries, was there no evidence tendered regarding dumping or unfair competition, either because it was not available or because such a situation perhaps did not exist. Consider the case of the sugar industry. The question of fair import prices and of the foreign costs of production of sugar has been dealt with elsewhere, but it may be emphasised here again that the Indian industry had to face the consequences of the following world factors: (1) the complete reservation of the internal markets by a number of countries for their own manufacturers, who were thus

in a position to sell sugar in the free markets at whatever prices they pleased; (2) protective tariffs elsewhere, which, again, had led to an artificial expansion of production bringing the price of sugar down in the free markets; (3) tariff preferences enjoyed in countries other than the countries of origin, as in Cuba, Java and Hawaii in their respective metropolitan countries; (4) direct subsidies, as in the United Kingdom, the Irish Free State and the Netherlands; and (5) other differential advantages such as rebates on trade taxes as in Czechoslovakia. This combination of factors had brought about very artificial conditions in the sugar trade of the world and, therefore, made computations of fair selling prices with foreign costs of production meaningless. It may, of course, be admitted that the cost of production in Java has been actually much lower than in India, but the low cost itself was induced by the fact that Java herself had to meet the artificial competition of foreign producers. In view of the fact that the large-scale economies arising from expansion of output have been already obtained by Java, any further competition amongst producers (brought about by, say, higher prices under normal circumstances) would have raised rents, wages and other costs in Java considerably. What becomes of the academic theories of comparative costs under such circumstances? If, further, comparative costs are to be a guide in the determination of the right level of protective tariffs, how can that level be correctly determined if comparative costs themselves are thus distorted? Barring this main consideration, from a short-run or narrower point of view, it may perhaps be admitted that the protective tariff has fulfilled the function of developmental encouragement of the sugar industry in India. Then, again, in the case of the paper industry, one may accept the point that the tariff has served its truly protective purpose. The same can be also said of the plywood and tea chests industry, and of wagon-building, and perhaps of one or two other smaller industries. But the instances are few and far between.

What, then, is the true character of the Indian system of protection. In my opinion, it has been a protection largely of the *safeguarding* variety, which any sensible and responsible government would have adopted in any modern country,

for the preservation of its industrial structure from external economic blizzards and from the predatory activities of international combines actively aided and abetted by their own governments. This point will become more clear later on when we discuss the economic background of the entire period of the working of Discriminating Protection. True, the second condition of the triple formula clearly states that protection must not be granted unless it is proved conclusively that the industry is not likely to develop at all or is not likely to develop so rapidly as is desirable, without the help of protection. True, also, that the Tariff Board had to estimate the forces which tended to make in each case the chances of growth difficult for the applicant industry, thus necessarily investigating any allegations of dumping or unfair competition. But that does not mean that the second condition necessarily implies the existence of foreign dumping or unfair competition. In normal circumstances, that condition, as well as the third, presupposes the existence of perfect and fair competition and of advanced (adult) industries abroad, which are offering a healthy competition to the applicant industries. As the Tariff Board reiterated on several occasions these conditions cannot be held to cover cases "where the inability of the Indian industry to meet foreign competition without protection is due to the fact that such competition is unfair competition."[2]

II

An Analysis of the Enquiries

In this section it is proposed to make a brief statistical analysis of the enquiries of the Tariff Board by reference to their outcome and ultimate disposal. Such an analysis is likely to be helpful to understand the Government's psychology in dealing with the applications for protection. There is not much information available as to how many applications were made in all to the Commerce Department prior

[2] Cf. (e. g.) *Report on Glass*, p. 61; also *Report on Steel*, 1934, pp. 58-63.

to their reference to the Board and how many of them were consigned to the waste paper basket that Department without giving the applications a chance for investigation. But if we classify the enquiries *actually undertaken* by the Tariff Board in the manner indicated in the table below, we get interesting results:

TABLE I

Tabulation of Enquiries

Class	Tariff Board's action	Government's Action	Number
A	Tariff Board recommended protection by duties or bounties.	Government accepted.	25
B	Tariff Board recommended protection by duties or bounties.	Government modified proposals.	11
C	Tariff Board recommended protection by duties or bounties.	Government rejected T.B.'s proposals.	6
D	Tariff Board rejected claim to protection.	Government accepted T.B.'s proposals.	7
E	Tariff Board rejected claim to protection.	Government intervened.	0

In class A, *i.e.*, in the industries whose applications were accepted both by the Board as well as by the Government were Steel (4 enquiries), Plywood and Tea Chests, Sugar (1 enquiry), Sulphur (tariff equality), Printer's Ink (tariff equality), Wagon-building, (Matches), Paper (1 technical, 1 substantive), Cotton (1 anti-dumping, 1 substantive, and 1 reduction of duty), Salt, Magnesium Chloride (2 enquiries), Gold Thread, Wire and Wire Nails, Removal of revenue duty on Pig Iron, Steel rails, and Tariff Equality (3 enquiries

into other industries). Thus out of a total of 25 enquiries, that were approved of by the Government, only about 13 enquiries were in connection with substantive protection and out of these again only 5 related to major or important industries. Many enquiries for tariff equality and technical changes fell in this group.

In class B, *i.e.*, where the Board recommended protection but the Government modified the proposals, are comprised Paper (2 substantive), Steel (1 anti-dumping and 2 substantive), Shipbuilding, Electric Wire and Cables (tariff equality), Sericulture, Sugar, other Tariff Equality (2 enquiries). Thus important enquiries like those for Steel, Sugar, Sericulture and Paper went through the nibbling process of the Government.

In class C, *i.e.*, where the Board recommended protection but the Government rejected the Board's proposals, we have seven enquiries including Cement, Cotton (1 anti-dumping), Heavy Chemicals, Glass, Sericulture and the Woollen industry (in the former case, Report was shelved in 1940).

In class D, *i.e.*, where the Board rejected claims to protection and the Government agreed with the Board, we have six industries, including Magnesium Chloride, Spelter (technical), Wire and Wire Nails, Coal, Oil, Electric Wires and Cables (substantive), and shuttles (tariff equality).

In class E, *i.e.*, where the Board rejected an application for protection and the Government intervened in the interests of the industry, we have *no* industry at all. This fact is rather significant as will be seen later.

Another interesting feature of the various classes has been the extent of delay caused in providing aid to the applicant industry. If a patient is ailing from a serious disease, it is the elementary duty of the doctor to see that medical assistance is given with the minimum possible delay. Most civilised governments trained in the art of statecraft in the *right* way, may, therefore, be expected to avoid red-tapism and delay, and to take quick and decisive action. But obviously the Government of India have their own notions about the time factor in the urgency of protection. Thus, what with the agonising delays and suspenses caused often by the cumbrous procedure adopted by the Tariff Board acting under

the rule of its constitution and what with the red-tapism and callous indifference of the Commerce Department to the requirements of industries in the matter of despatch of business, several industries were often almost on their last legs before assistance was possible. In the case of the match industry, for example, two years elapsed between reference and final action; in that of cotton textiles, the Board and Government together took two and half years to come to a decision (1932-34), in that of sugar, two years (1932-34); in that of salt also, two years (1929-31); while in that of magnesium chloride, three years were allowed to pass before assistance was granted (1928-31). These delays occurred in cases where protection was agreed to (under class A above). In class B, the sugar report was published after a delay of two years, while manila rope had to wait for full four years (1925-29) for tariff equalisation. There were other very serious delays in tariff equalisation, where 3 to 5 years were taken by the Board and the Government together. In class C, the woollen industry waited from 1934 to 1936 to be told that it was not going to get protection; and the glass industry report for which the reference was made in 1931 was submitted in 1932 but was released for publication in 1934 with the announcement that the Government did not propose to grant protection. It is remarkable, however, that in the case of industries covered by class D, the Government *never lost much time* in coming to a decision, but as soon as the reports came along, forthwith announced their most cordial acceptance!

Delay by itself would not perhaps have been so objectionable and nauseating, were it not for the fact that the Commerce Department in every case, enveloped in the vanity of its own ignorance, sat in judgment upon the reports which were submitted by the Tariff Board after laborious, searching and meticulous enquiries. It appears that the Commerce Department officials generally made up their minds at the time of the initial submission of an application to the Government prior to reference to the Board, and, having made up their minds, read the subsequent report as a mere commentary on their own jejune reasonings. I do not suggest, of course, that the Tariff Board consisted of intellectual giants, and that the Commerce Department has been studded with

second-rate men. But what strikes one as rather curious is that the Government should treat with both distrust and scant courtesy the findings and conclusions of a body of men of eminent calibre, who had gone through every aspect of an industry in a very thorough and first-hand manner, with impartiality and serious application, who had visited factories personally, conducted private and public enquiries, examined and cross-examined witnesses, and, after a concentrated effort generally aimed at unanimity amongst themselves, placed those findings and conclusions before the Government. Not only this, but the very composition of the personnel of the various Tariff Boards should suggest that the Boards were appointed by the Government largely with a view to securing easy acquiescence of their own views. Thus, of the total number of 113 positions on the various enquiries, 71 were held by Government officials themselves and only 42 by non-officials,—most of whom, again, were men of independent views and did not belong to any particular political or economic school of thought. In fact, it has been generally the case that in respect of selections for the Tariff Board appointments, any express avowal of nationalist or protectionist sentiment must be taken as a sure disqualification! Under the circumstances, therefore, there was no reason to suppose that the Board approached their respective tasks with any particular bias in favour of granting protection to industries at all costs. If, in spite of this fact, the Commerce Department found it necessary to disagree with the Boards and to contradict their opinions and to revise their proposals, the only conclusion that can be drawn is that the Department performed their pet function of stalemating protection with zest and energy. We have observed in the foregoing pages, how the Department borrowed the points of the Board itself to turn them against it, how they twisted their logic to suit their convenience and, what is most reprehensible, reiterated objections even when they were completely answered and laid low by the Board in each case.

If the Government were wiser and more capable than the Tariff Board, surely, by the law of equal chance, they should have intervened at least *once* in the case of industries whose applications were rejected by the Board. As we saw above,

in the D class of industries, the Government always agreed with the Board. If the Tariff Board were not above mistakes, surely there were opportunities to the Government to show their independence of judgment in the case of rejected applications. In the first enquiry on magnesium chloride, the Board's calculations were wide of the mark and were definitely falsified by later events; and the wire and wire nails industry, as well as shuttles and coal, could have given food for thought and disagreement, if the Government would have it. The only conclusion that can be drawn is that the Government all along regarded it as their primary function to nibble at the proposals of the Tariff Board and to take delight in rendering the system of protection *hors de combat*. But, in fairness to them it must be pointed out that there was nothing *new* in this: they had been doing the same thing all along. Prior to the advent of Discriminating Protection, of course, they had, as Westland once put it, their orders from their superiors at home, and, as others said so often, they had their free-trade opinions too! But after the resolution of the Legislative Assembly which inaugurated Discriminating Protection, they nursed a secret mental resistance against it. They developed, so to say, an irritation complex and consequently they went on fighting against the *accepted fiscal policy of the country*, with a half-wicked, half-interested satisfaction, all the time seeking to dump the inapplicable tenets of free trade upon the country, by raising bogeys of consumer's burden, over-production, loss of Government revenue and so forth. It is not thus a mere coincidence that the Commerce Department have found themselves consistently opposing protective measures. The one outstanding feature of the Fiscal Autonomy Convention as we shall see presently, has been that it has transferred the conflict of Indo-British interests from the open arena to the back door. The Commerce Department, responsible in a real sense only to their masters at home, have voiced the views of the English freetrader and looked at protection generally from an extra-national standpoint. Formerly, of course, commercial policy was largely decided by the Finance Members, but even in recent years the Commerce Members have been largely influenced by the views of the Finance Members. Laing, Wilson,

Strachey, Westland, Law, Meyer, Meston, Hailey, Blackett, Schuster and Grigg—almost all stood for the tradition of free trade by inclination as well as by convenience. Of the last three who mattered most for discriminating protection, it is well known that Grigg openly opposed it but latterly reconciled himself to the form if not the substance of it!

III

The Clash of Interests behind the Scenes

Thus there has been a continuous clash of interests behind the scenes. Let us try, if possible, to unravel some of the mysteries of the corridors of the Legislature and the Secretariat of the Central Government and read between the lines of the objections raised in some cases and agreements registered in others by the Government. The earlier history of the cotton tariffs is, of course, replete with instances of interference by the Secretary of State acting on behalf of the vested interests of British commerce in India. That is history. But there is no reason to suppose that there had taken place any striking change in the constitutional or factual position to suggest that British (and sometimes even non-British) interests could not have managed to continue their old methods of furthering their own interests and of opposing industrial development in India. From what follows there are strong reasons to infer that such methods were not wholly estopped, but that they were canalised in a different way. It may also be emphasised that the same spirit has been allowed to influence the framing of some of the important sections of the Constitution Act of 1935, and, as will be seen in a later Chapter, those sections have merely legalised the operations in a formal manner.

Let us examine the circumstances and forces which enabled particular industries to obtain fiscal aid and which prevented others from getting it. It will be clear that, the "oozing sympathies," which the spokesmen of the Government affected for the poor agriculturist of India or the poor or middle-class consumer, were not always the strongest factor in the equation, but were merely platitudes meant to

cover up the real grounds of opposition. To take up the steel industry first, we have already noticed that protection granted to this industry was mainly directed against the Continental organisations, which had resorted to dumping, and to a very large extent, even before the advent of "Ottawa," the British producers obtained preferences and latterly actually entered into a bilateral agreement with the principal Indian producer, viz., the Tata Company in regard to pig iron and galvanised sheets. Thus, there was a truce between the rival interests and it was the non-British producer who was sought to be eliminated. This truce necessarily facilitated the grant of protection to the steel industry in India. Similarly, in regard to the cotton textile industry, it has been an outstanding fact of common knowledge that the Indian textile manufacture did not come much into conflict with the British owing to the lower counts of yarn used in the production of cloth and the use of short-staple cotton in the Indian mills. In recent years, only in some of the mills long-staple cotton is being used for the production of the finer varieties of cloth, but what with the import duty on long-staple cotton ostensibly imposed in the interests of the cotton grower and the tariff classification, the British piecegoods have few disadvantages to counter. Nay, in fact, the freights policy of the Indian railways and the rupee-sterling exchange rate have conferred on the British producers positive advantages of a more or less permanent kind. Moreover, in recent years, owing to the Indo-British Trade Agreements, the British industry has been able to secure a number of facilities at the expense of the Indian industry. In the coarser variety of cloths and yarns, the competition has been especially keen with Japan and China; and it is against these countries that the import duties have largely operated. Thus, in the case of the cotton industry also, the conclusion is that protection, or rather safeguarding, has been possible because British interests are adequately catered for. Coming to the sugar industry, protection had to counter little opposition from the side of the Government, for the principal combatant in this respect was Java, and there was not only no question of any imports of British sugar into India, but actually Britain has had all along to import sugar to satisfy her domestic demand.

Britain's domestic demand of sugar in 1936-37, for example, was about 2,405,000 metric tons, while that of Canada was 506,000 metric tons, while the "home" and preferential sugars available for these two markets were only 2,208,000 metric tons, which left a margin of 703,000 metric tons as free-market requirements. Under the International Sugar Agreement, this has been allotted to the exporting countries on a quota basis. Sugar, then, did not involve any clash of Indo-British interests. In the case of paper, Scandinavia has been the principal competitor but, Germany and to a smaller extent the United Kingdom have also figured as importers. But it must be remembered here that, as in the case of the jute industry, foreign paper concerns were matched by British-owned paper factories in India, like Titaghur, Bengal and Indian Paper Pulp. Latterly, the hegemony of these three companies, as we have seen, was challenged by Indian concerns. But there appears to be little doubt that protection was considerably facilitated by the fact of British ownership of these principal concerns. In the case of the match industry, we have noted already that Sweden being the principal foreign contestant, protection of the Indian industry was not such a difficult proposition. No doubt, in spite of the suggestion of the Tariff Board to that effect, the Government has not so far taken any action in controlling the unfair competition of the Swedish Match Company (which has strongly entrenched itself within the country), but in all probability this has to be attributed not to any solicitude on the part of the Government for the interests of the Swedish concern but to their anxiety to keep the industrial law free from any restrictions on foreign concerns in the country, which may be possibly construed against British concerns as well. The cement industry provides another example of the conflict between the Indian and British interests. When the industry applied for protection, the only serious competitor was the United Kingdom. The Tariff Board, it may be recollected, were in favour of helping the industry with bounties so as to enable it to compete in the principal markets near the ports. This system of bounties, however, would have operated directly against the interests of Britain, while, so far as the Sone Valley Portland Cement Company was concerned, the Board

explicitly stated that it would not be eligible to receive any bounties for the reason, among others, that it was a subsidiary of the British firm, the Associated Portland Cement Company Ltd. Under the circumstances it is not surprising that the cement industry was left to work out its own salvation, without any fiscal aid! In connection with the heavy chemicals industry, again, protection was directly antagonistic to the interests of the huge British combine, the Imperial Chemicals Ltd. In view of the fact that the necessary raw materials were available in sufficient quantities, that it was a key industry and also an industry of great importance to national defence, the case of the industry was irresistible, from every point of view; but protection to the industry ran directly counter to the interests of Britain and that was undoubtedly the main reason why after great delay the industry was given temporary fiscal aid, only to be left high and dry within eighteen months. As regards magnesium chloride, however, the situation was entirely different; for here it was a German Syndicate that was consistently dumping its surplus on the Indian market with a view to the eradication of the Indian industry. That appears to be the simple reason why of all the heavy chemicals, magnesium chloride was *the only one* to receive protection at the hands of the Government. Similarly, in the case of the gold thread industry it was France who was the chief external competitor; protection, therefore, was not looked askance at by the Government in this case. The plywood and tea chest industry of India, likewise, had to face the competition of Finland, and we know that this industry received even more protection than what was recommended by the Board. Salt also stood in the same category. In the case of the subsidiary steel industries, such protection as was available contained a large element of preference for the British products as against the Continental countries and Japan. But it is remarkable that in relation to the locomotive industry the Government has shown a consistent reluctance to assist the Indian producers. This has been mainly due to the fact that the United Kingdom is the principal supplier of locomotives for the Indian railways, which have had established trade connections with the British firms. Compare, again, the fortunes of the silk and sericultural in-

dustry, on the one hand, and of the woollen industry, on the other. The former could obtain some protection at least against foreign competition which emanated principally from Japan and China. But the woollen industry could not get protection, partly because the British-owned section of that industry in India did not require it, and partly because there were the interests of British importers also to be considered. A casual reference to the statistics of imports of woollen piecegoods can show that Britain heads the list of importers in this connection. Thus, while in the post-War quinquennial averages, the United Kingdom was responsible for Rs. 153 lakhs out of Rs. 189 lakhs, in 1936-37, her imports were of the value of Rs. 38 lakhs out of Rs. 76 lakhs. In the same years, Japan's imports were respectively Rs. 8 lakhs and Rs. 31 lakhs. The figures speak for themselves, and it is not necessary to labour the point further. Similarly, in regard to the technical changes in tariffs, we have already noticed how Government has shown a marked indifference towards the legitimate requirements of the manufacturers of shuttles, healds and reeds, and tobacco goods including cigarettes. Britain has been the principal supplier of shuttles, healds and reeds for the Indian textile industry. Likewise the Imperial Tobacco Company has a big stake in the imports of tobacco manufactures into India. Thus, invariably we find that wherever the Government has shown any opposition to the demands of the Indian industries, there has been some British interest at stake. Surely, from these facts, no honest or impartial investigator of the question can come to any conclusions which are contrary to those stated above. For convenience, we may restate the findings of this section as follows:—

(1) Where only or mainly non-British interests were likely to be injured, and the case for protection was justified on other grounds, protection has been invariably accepted by the Government.

(2) Where protection was likely to injure British interests mainly, it was cold-shouldered.

(3) Where, however, it was possible to erect a double-decker tariff, with a scheme of preference within protection, compromise was reached and the path of protection was smoothed.

(4) In a very few cases, such as paper, tinplate, shipbuilding, etc., protection was accepted by the Government if there was the counter-

acting force of British firms inside the country neutralising the opposition of foreign concerns.

These are, no doubt, unpleasant conclusions; but the truth must be told, and the truth in this case is so glaring and unmistakable that it is impossible to avoid it. The foregoing discussion does not suggest corruption, but an understandable partiality on the part of the Government for British industrial interests. Of course, as stated above, there is hardly anything new or shocking in it, and in any case the Government of India Act of 1935 clearly brings out the clash of interests for the world to see. Under the circumstances, it is idle to suggest that there has been anything like fiscal *autonomy* either under the old or under the new dispensation.

IV

The Economic Background of Discriminating Protection (1923-40)

In Section i above, the true character of the so-called protection granted during 1923-40 was analysed and it was stated that a variety of disturbing factors had been in operation throughout the period affecting the fortunes of the Indian industries. Here we shall briefly survey those factors and the degree of their influence on Indian industrial developments. (*i*) Immediately preceding the period of protection, we have the first Great War (1914-18) and the aftermath including the boom and crisis of 1919-20 and 1921 respectively. (*ii*) The period 1917-27 was a period of great currency upheavals with considerable fluctuations in the rupee-sterling ratio. The stabilisation of the ratio in 1927 should have meant relief for the economic structure, but for the fact that the ratio was pitched at an artificially high level. During this period and the following six or seven years, there took place exchange fluctuations on a tremendous scale throughout the world, which also had their repercussions on the Indian situation. An outstanding monetary event was the departure of sterling from gold in 1931 and the formation of the sterling *bloc* along with other *blocs* in the subsequent years. (*iii*) The Wall Street crash of 1929 and the World Depression of 1929-33 and the recovery of 1934-37 were

world events of tremendous importance not only to international trade and production but to Indian industries as well. This was also the period which harbingered the modern Economic Nationalism, whose effects on the industrial structure of India have to be carefully studied. (*iv*) Finally, the preparations for war and war itself mark the *finale* of the period under consideration. What have been the consequences of these factors on India and how have they complicated the calculations of the Tariff Board? The following discussion will show.

The last War, like the present, found India absolutely unprepared industrially as well as militarily. The immediate consequence of that war was the complete dislocation of foreign trade and the creation of a feeling of wide-spread uncertainty in the industrial world. Many of the principal industries were temporarily thrown out of gear by the cessation of imports of key materials, like chemicals, machinery etc. On the other hand, competition from Europe was virtually eliminated. However, the Indian manufacturers were not prepared to take advantage of the situation in view of the lack of key materials and the necessary technical skill. As a consequence, the United States and Japan could expand their markets in India, thus preventing the Indian manufacturers from availing themselves of the opportunities presented. It was only at a later stage of the war that some minor industries could be developed, owing to the difficulties of getting sufficient shipping accommodation for the imports from the foreign competing countries. The inability of Indian producers to avail themselves of the opportunity afforded by the War was due (1) firstly, to the difficulty experienced in obtaining essential machinery and key materials, (2) secondly, the shortage of railway wagons and coasting vessels, and (3) thirdly, the shortage of skilled labour and technical experts, who hitherto were imported from abroad. It would be instructive to compare the present situation with this. It will be seen that barring the shortage of transport facilities, which appear to have been substantially solved by the development of motor transport, the problems remain exactly the same. As now, so then also, the Government of India, in its characteristically opportunist manner, was suddenly

awakened to the importance of developing the basic and key industries of the nation which would provide the sinews of war. This, as we have seen, led to the appointment of the Industrial Commission in 1916. The report of the Commission was available at the fag-end of the War and the recommendations made by them became soon out-of-date, at least so far as the Government was concerned. The idea of the Government, then as now, was merely to mobilise the country's resources for the effective execution of war. There was hardly any other incentive for them to undertake industrialisation. However, the War left behind a number of "war babies" to the tender mercies of peace-time competition. Owing to the steep rise of prices, there were accumulations of funds in the hands of the mercantile community, which had led to the flotation of a number of industrial concerns in new as well as old lines. When the War was over, these were exposed to the full blast of foreign competition and the need for protection was keenly felt. This accounts for the popular agitation for protection which followed. Since the end of the nineteenth century, as a reaction against the decline of handicrafts and consequent widespread poverty and unemployment, the *Swadeshi* movement had already begun to make itself felt. Intense political agitation also helped this popular type of protection. In the deliberations which preceded the Reforms of 1919, industrial protection naturally figured prominently. The Fiscal Autonomy Convention and the Fiscal Commission were both the outcome of the agitation for protection necessitated by the deplorable condition of the war-time industries. But the progress of events was too slow, and before the fiscal policy could even be partially transformed, many industrial concerns went into liquidation. The crisis of 1920-21 took a very large toll of the "war babies," whose "infant mortality" was very high indeed.

When Discriminating Protection came, with its dilatory machinery, there were still some large-scale and essentially virile industries on the scene which could avail themselves of it. But, as stated in Section i, the position of these industries was very largely affected by external events and circumstances of a cataclysmic character, over which they had hardly any control. First came the hyper-inflation of the mark in

Germany and of various Continental currencies like the franc, the guilder etc. The consequent depreciation of the foreign currency considerably increased the competitive strength of the countries concerned. Even when these currencies were stabilised, excepting in the case of the mark, in most instances stabilisation was made at high price levels, which necessitated further revision of the exchange rates later. Thus, during 1924-26, the franc, remained very much below its pre-war parity, fluctuating between 140 and 197 francs to the £. Similarly the lira reached the figure 147 per £ as compared to a pre-war parity of 92, in 1926 August. But by the end of 1926, most currencies had returned to their pre-war gold parity. Thus, it appeared that the Indian industries would, after all, be spared the consequences of depreciated currencies for some time. The stability of Continental exchanges, as also of the American dollar, the Chinese dollar and the Japanese yen, continued up to 1931. However, in the meantime an event of great importance had taken place in the Indian currency situation. The rupee ratio had been fluctuating at a very high level during and immediately after the war. In 1917 August, it stood at 1*s.* 5*d.*, in April 1918, it rose to 1*s.* 6*d.*, in May 1919, it rose further to 1*s.* 8*d.*; in August 1919, 1*s.* 10*d.*; in September 1919, 2*s.*; in December 1919, 2*s.* 4*d.* and by 11th February 1920, 2*s.* 10½*d.* In 1920, the Government made an unsuccessful attempt to maintain the ratio at 2*s.* Between 1920 and 1924, the Government left the rupee to its own fate, following a policy of what is styled "masterly inactivity." For a couple of years, the ratio was allowed to remain at or below the 1*s.* 4*d.*, mark, but it was raised by 1924 end to 1*s.* 6*d.*, and in the following years, by a policy of currency contraction, the Government kept it pegged at that level. The war-time fluctuations of the ratio or its high level did not do much harm to the industries of India as war itself provided some indirect protection. But the artificial fixing-up of the ratio at a higher level in 1924 (*de facto*) imposed a new and permanent handicap upon the Indian industries amounting to an import bounty on all foreign imports of 12½ per cent *ad valorem*. It may be unreservedly stated that a substantial part of the later protection was merely compensa-

tion for the harm thus inflicted, though the Government have not accepted this. After 1931, the departure of sterling from gold gave a temporary respite to the Indian economy *vis-à-vis* the rest of the world, but the continuous expansion of the sterling-area on the one hand and the devaluations and depreciations of a large number of currencies of countries outside that area (which, like Japan and China, were her industrial competitors) soon nullified the temporary advantage. Only some of the European countries, like France, Germany, Holland and Italy, provided comparative advantages. However, as will be seen later, these advantages were cancelled by the "dumping" activities of some of these countries. After 1935, however, the devaluations of the European currencies tilted the balance still further against India.

Apart from currency upheavals, this was also the period of economic fluctuations of a more comprehensive character. The Slump of 1929-34, ushered in by the Wall Street Crash of 1929, was one of the severest known in history. This Slump created an unprecedented glut in every market due to relative over-production of goods, and the world saw the emergence of Restriction Schemes, on the one hand, and widespread poverty and unemployment, on the other. The phenomenon of "poverty amidst plenty" made its appearance for the first time. A plethora of unwanted goods stalked the markets. Each country preserved the home market for its own use and sought to dump its surplus on other countries. Thus, in the free markets of the world, which had not accepted any rigid system of quotas or bilateralism, the plethora of unwanted goods found ready outlets and were sold regardless of price or profit. The nice schemata of comparative costs and international division of labour erected by the classical economists were thrown to the winds. Most countries had already protected themselves by means of quotas, exchange controls, clearing and payment agreements, import and export licences, etc. But those which had not done so were severely affected by the blizzard. India has remained one such free market for any country to pass on its surplus production at cut-throat prices. We have already seen that the Tariff Board could seldom make any accurate enquiry into the real costs of production of the foreign com-

petitors selling their goods, even when it was known that the prices were unfair and uneconomic. Thus, it is clear that protection was largely necessitated by the predatory dumping practised by foreign countries, working through international selling organisations and helped by State subsidies (as in the case of Japan, *e.g.*).

The Tariff Board worked with such an economic background for its system of protection, it is incorrect, therefore, to assert that there was much of substantive or developmental protection in their recommendations. As stated in Section i, it was largely a system of *safeguarding* duties consciously or unconsciously suggested by the Board. Where the Government turned down such suggestions, the industries generally succumbed to the attacks of foreign competitors, who would not have succeeded in achieving such results in any fiscally autonomous country.

V

The Triple Formula

In Chapter XVI, Section iv, the contents of the "triple formula" have been already described. We have already dealt with some of the aspects of this doctrine in earlier pages, such as, *e.g.*, its piecemeal and haphazard nature, and its failure, to grasp the industrial problem *as a whole*. As stated already, one important offshoot of the doctrine has been the refusal of the Tariff Board to consider the case of "embryonic" or potential industries. As the Board says: "To put it very briefly, there is no need for protection, unless there is something to protect."[3] Many a worthy industry has been prevented from arising or developing owing to this incoherent and incomprehensive view of industrial affairs: the cases of the glass industry, of heavy chemicals and several others are in point here. Apart from these defects of the triple formula of the doctrine, however, there is a serious flaw

[3] *Report on Steel*, 1924, p. 22; cf. also pp. 56 ff.

underlying its very basis: that is the flaw of the inherent incompatibility and mutual inconsistency of the three parts of the formula. An applicant industry must prove that it is one "possessing natural advantages." Now, if an industry succeeds in proving that it does possess the "natural advantages" in an eminent degree, it cannot at the same time satisfy the second condition that it is not likely to develop at all without the help of protection or is not likely to develop so rapidly as is desirable in the interests of the country. This second condition, the Commission say, is an obvious corollary of the principle of protection. Yet, the question must occur, as it must have occurred to the Tariff Board itself on several occasions, why an applicant industry cannot develop itself without protection, if it possesses the natural advantages required by the first condition. Where exactly should the line be drawn? In the case of pig-iron, *e.g.*, no protection was deemed necessary, because here the advantages were of outstanding superiority; in that of steel, however, the same condition was satisfied but protection was advised as necessary. The solution of the question here was a mere rule-of-thumb or "pragmatic" affair: the pig iron section was not in trouble; the steel section was. Take, again the case of the glass industry, which, on the other hand, had all the natural advantages, except that a local soda ash industry had not arisen. Now the birth of the soda ash industry itself depended upon the growth of the glass and other industries in the country; and though the Tariff Board recommended protection, the Government, as noted before, held that "natural advantages" were not sufficient and refused to sanction protection. Thus, it is, in the first place, an indefinite theoretical issue as to what is the requisite extent of natural advantage in order that the conditions of protection may be satisfied. Even if we take the most advanced Western countries, the condition of natural advantages will not be satisfied in regard to many industries. It is doubtful if even one of them would satisfy the rigorous conditions set up by the triple formula of Discriminating Protection. In most instances, the raw material supplies are obtained by the European industries from enormous distances and the only advantages they can claim will be found to be those of skill, of superior technique and of the posses-

sion of adequate power resources.[4] Now, the advantages of skill and technique are a matter of acquisition and not a gift from the heavens and arise of necessity in the course of industrial development itself. They can be acquired by any nation intent upon technological progress, as the example of Japan amply shows. The recent history of the development of Indian industries tells the same story of an initial importation of foreign skill and its later replacement step by step by indigenous skilled labour. As regards power supply, this is not a factor involving greater cost than raw materials in most industries; nor is it beyond the scope of most countries: in India, at any rate, coal, hydro-electric and oil supplies are quite plentiful for any kind of industry. If, therefore, industries could sustain competition for so long in European countries, it has to be admitted that, in nine cases out of ten, this has been due not so much to any permanent or superior advantages of which the Indian industries were for ever incapable, but primarily due to early start, tradition, and acquisition of skill and technical efficiency. The critic may object that the case of European industries is not relevant because they are not in any case applicants for protection, but have already established themselves. The answer is twofold: (1) In the first place, it must be admitted that the European and American industries have been established mostly with the help of an initial protectionism, at some time or other, in the course of their development; while, in many cases, they are still relying upon domestic protection for enabling them to dump their goods abroad on well-known lines of discriminating monopoly; (2) and secondly, the case of foreign industries is highly relevant because it shows what a country like India, the home of most raw materials of industry, with its cheap labour supply and its enormous domestic market,

[4] Japan has most successfully exploded the myth of raw materials as a condition precedent to industrialisation. Japan is no doubt poor in raw materials, but the assertion that a country poor in raw materials cannot expect to be an industrial nation, rich and powerful, has been belied by her experience. Cf. Ginjiro Fujihara, *The Spirit of Japanese Industry*, Chapter xiii, on the "Fallacy of the Argument for Natural Resources."

can achieve, provided just the necessary *initial impulse* is provided in a *more comprehensive and less meticulous* manner, keeping in view the principle of the "cumulative" growth of an industrial economy and the facts that technical knowledge is not the monopoly of any one nation and that skill can be acquired in a fairly short period.

When the Fiscal Commission laid down its first condition that the industry must be one possessing natural advantages, it did not insist on the possession of *all* such natural advantages, but its enumeration was only illustrative, as is apparent from the phrase, "such as an abundant supply of raw material, cheap power, a sufficient supply of labour, *or* (my italics) a large home market." They further emphasised this aspect of the matter by stating that the advantages would be of "different relative importance in different industries." Further, they said: "the successful industries of the world possess *certain* comparative advantages to which they owe their success. No industry which does not possess *some* comparative advantages will be able to compete with them on equal terms ......" (my italics). The Fiscal Commission could not have imagined that there was any such perfect industry in India or anywhere else, which would require protection even after possessing the complete set of advantages necessary for development. All that was required, under the circumstances was that the costs of production of the industry in the long run, if not immediately, should be such as to hold out a reasonable hope that protection would be unnecessary within a measurable period of time. Thus the vital question to be considered was the cost of production of the industry, which would necessarily, in a final sense, cover all considerations of natural advantages or the lack of them. It is to be noted that the Tariff Board on the heavy chemicals industry brought out this aspect of the question, when they observed: "If the policy of discriminating protection were so interpreted or administered that the existence of these advantages was regarded as a condition precedent to the grant of protection we have upon a careful review of our enquiries during the last six years no hesitation in stating that under modern conditions scarcely any Indian industry could fully establish its

claim to protection."[5] The correct view of the condition regarding natural advantages is that the presence or absence, as well as the extent, of such advantages would be reflected in the final costs of production. The Tariff Board, in the same Report, stated the position correctly as follows:[6]

> "The condition which requires that an industry claiming protection should possess sufficient natural advantages, must not however be looked at by itself. We think it necessary to point out that, considered strictly from the economic point of view, the first condition...is explanatory of and not distinct from the third condition. The matters referred to therein, such as an abundant supply of raw material, cheap power and a sufficient supply of labour are *intelligible only with reference to the costs of an industry*......It has always been the practice of this Board, in considering whether the third condition of the Fiscal Commission is fulfilled,... ...to attempt by a detailed and critical exposition of the costs to set forth the position which the Indian manufacturer may reasonably be expected to attain within a measurable period. Obviously the matters referred to in the first condition laid down by the Fiscal Commission are reflected in the costs and the final reply to the question whether this condition is satisfied must wait until we have examined the costs."

On the basis of this interpretation of the condition, the Board recommended protection to glass although soda ash was not available in India, stating that dependence on imported materials was not a bar to protection, provided the final costs justified it.[7] Similarly, in the case of the heavy chemicals industry, the Board observed that the absence of sulphur in India was not an insuperable objection.[8] Another example is that of the match industry which imported its supply of aspen. Although the cost of aspen accounted for nearly 33 per cent of the final costs, the Board felt that industry would ultimately justify protection in view of the other advantages.[9] In spite of this, however, the Government of India on at least two occasions disregarded the recommendations of the Board on the ground that the first condition was not satisfied, attaching an undue importance to the "raw

[5] *Report on Heavy Chemicals*, p. 15.
[6] *Ibid.*, p. 15.
[7] *Report on Glass*, p. 30.
[8] *Loc. cit.*, p. 12.
[9] *Report on Match Industry*, pp. 23, 50-59.

material" part of that condition. With a little more vision they could have seen that the disadvantages in respect of soda ash or sulphur or aspen or worsted were not permanent ones but such as could have been remedied by the general growth of industries, and, moreover, that they were even immediately counterbalanced by greater advantages.

Let us consider some of the other items in the first condition, such as a sufficient supply of labour, a large home market and cheap power. Now so far as unskilled labour is concerned, India has a plethora of it. This, to some extent, also accounts for the low level of wages prevalent in India. The low wages are a distinct advantage to the starting of industries. Where the work is largely mechanical and consists of tending the machine only, unskilled labour can acquire the necessary knowledge in a few days. Thanks to scientific improvements, modern machinery is increasingly eliminating the factor of specialised skill in large-scale industries. As the largest part of the wage-bill of industries consists of wages paid to unskilled labour, the fact that labour is plentiful and cheap is beyond doubt a strong point in favour of industrialisation in India. As regards skilled labour, on the other hand, this is a matter of subsequent development: it would be putting the cart before the horse to insist on the availability of the technicians of a particular industry as a condition precedent to establishing such an industry. Neither List, nor Mill, nor any other fiscal theorist ever imagined that technical skill would be already there before industries are developed in a backward country. As a matter of fact, the whole concept of protection for infant industries or an infant country has been based upon the possibility of acquiring this skill and developing the "wealth-producing capacity," of which List spoke and the classical economists approved. The responsibility for developing the skill, therefore, falls upon protection itself, *i.e.*, upon the protected industry and incidentally upon the Government (unless the Government regard themselves as the preservers of *laissez-faire* in its pristine purity) as well. In every modern, civilised country, the State provides technological education to a large majority of its youth. What has been the record of the British Government in India? If Japan is in the vanguard of industrialism, to-

day, it is largely because of her thousands of industrial and technological schools. In India the function of education has been mainly the provision of the clerical staff necessary for the public services and for commercial houses, and, for well-known reasons, the Government have not allowed their precious system of education to be polluted by any general training in technology, or industrial research, or to take a parallel case, in military science. In recent years, a few institutions have been started to provide training in technology, such as the Harcourt Butler Institute of Cawnpore, the Imperial Institute of Sugar Technology etc., but these are only a drop in an ocean. Research, again, has been utterly neglected all these years, in spite of the establishment of the Central Department of Industrial Research and the Provincial Department of Industries. It is to be hoped that the new Board for Industrial and Scientific Research will achieve some better results; but unfortunately the finances at the disposal of this Board are so meagre and consequently its staff and equipment so small that it appears that we shall have to wait quite long.

Coming to the remaining items in the first condition, India has always a large potential market for every industry. Owing to poverty, however, it is not always vocal in its effect. The Indian market will be developed to its fullest capacity in every direction when owing to increased productive efficiency, the standard of life rises. Thus, it is clear that to a large extent, the market for industries is bound to arise side by side with the industries themselves. In the first instance, it is the case that most industries are mutually complementary in this respect, as the growth of one set of industries implies a growing demand for the products of other sets of industries, and so forth. Apart from this, when wealth-producing capacity increases, this itself will necessarily lead to a growth in wealth-*consuming* capacity. At present, industrialism in India appears to be faced by this riddle. We are solemnly asked by even academic economists, who should be able to visualise the situation better than the mere industrialists, —each of whom is likely to look at the picture from his own particular standpoint,—where is the market in India for a hundred and one products which are possible, or, for increas-

ed production in particular branches of industry? Will not there be a glut of unsold goods, if, say as a result of national planning, there is a plethora of goods thrown on the market? Can the internal market stand it? Such questions are the results of what may be called a "telescoped" vision and proceed from the assumption that industrial progress is sudden and one-sided, and from visualising not the steady course of future developments but the totality of events all at once in a jumbled mass. If industrialisation is properly planned, there need be no general over-production; at the most there may arise such a problem in a small way or temporarily. But, generally speaking, *industrialisation will produce its own guarantee of success by creating markets as it proceeds ahead.* This is what happened in the United States, for example who seldom relied on foreign markets to absorb her industrial products. India may not be able to absorb more motor cars at present, and, therefore, her automobile industry may have to work cautiously in the beginning, but a country with long distances and a teeming population can scarcely remain irresponsive to that industry. Provided other industries arise at the same time and there is a drive to develop the productive efficiency of the people, the internal market for such an industry is one of the biggest in the world. *The practice of considering the market of each industry separately is unscientific and narrow.* Thus, the future market for the iron and steel industry depends upon the engineering industry including machine-making, construction, ship-building, etc., as also on the development of other industries. The demand for heavy chemicals similarly depends upon the growth of other industries, including glass, sugar, paper, textiles, munitions, drugs and medicines. There is a greater or less degree of interdependence as between these industries, which must be taken into consideration in any scheme of National Planning, of which fiscal policy is necessarily one of the instruments. The "triple formula" unfortunately rules out such a far-sighted or comprehensive view, as it requires the consideration of each industry separately and by itself. Another serious flaw of this item of the first condition is that it lays an unnecessary emphasis on the existence of an internal market as a condition. True, the Indian industries, under the

present circumstances, have to devote attention to supplying the internal market, in the main, in view of the fact that the external markets are closed to them in several cases wholly or partly. But, if the condition of a domestic market is meant to exclude all considerations of an export market whatsoever, it must be pointed out that such an offshoot of that condition was not contemplated even by the Fiscal Commission. In several cases, such as cotton textiles, coal, sugar, iron and steel, and cement, the feasibility of export markets has been shown to be more than theoretical. India luckily holds a geographical situation which is central to the African, Asiatic and Oceanic markets. This is a position which augurs well so far as the future of Indian industries is concerned. As Professor Vakil points out, therefore, "If Britain helps industries fed by foreign raw materials and dependent upon foreign consumers, there is no reason why India should not encourage industries which can be fed by her own materials, irrespective of the market."[10]

The triple formula, therefore, has been a misleading formula. In practice, it has done more harm than good to the struggling Indian industries, especially the minor industries, because it has stood in the way of straightforward protection. The second condition, *viz.*, that growth of the industry concerned must be impossible without protection, has already been shown to be inconsistent with the first condition. If an industry, like cement, satisfies the first condition extremely well owing to a plenitude of natural advantages, it cannot be held to satisfy the second condition; on the other hand, if it does not properly satisfy the first condition, its case would fall to the ground immediately. Thus, an industry has to be just on the *margin* of doubt to deserve protection. The triple formula has thus set a mutually contradictory task to the applicant or to a protected industry: It must prove that it has a plenty of natural advantages, but it must not overstate its case, lest protection might not be granted! In the case of protected industries similarly, the manufacturers had (1) to prove that protection had successfully

[10] Cf. his *Madon Memorial Lectures*, 1936, p. 5.

assisted the industry in reducing costs, in earning profits and surpluses, and at the same time (2) to show that its further progress could not be maintained without a continuation of that self-same measure of protection till the end of the normal period. Thus it is more ridiculous than interesting that the Tata Company was required all along to blow hot and cold by explaining its improved financial position and at the same time describing its troubles lest protection might be withdrawn! As regards the third condition, the sentiment underlying it is theoretically correct, inasmuch as a protected industry must ultimately be able to manage without protection. But it is one thing to expect the protected industry to fulfil this condition in a *post-facto* manner and quite another to lay it down as a condition precedent to the grant of protection. No body of men, howsoever brilliant, can correctly forecast the shape of things to come and state categorically that at such and such a time the industry concerned would be able to dispense with protection. To be sure, under the aegis of protection, an industry may be expected to achieve progress, reducing costs by introduction of better methods of production, as a result of accumulated experience, expansion in the size of operations, the establishment of goodwill and trade connections, etc., and by the sheer momentum of events. Accordingly future costs of production must necessarily be less than the present costs of production. But it is an exercise in pure astrology to state the exact measure of reduction in costs or to predict the time by which it would be achieved! There are so many complicating factors to be considered: the organisation of the industry, whether centralised or decentralised; the readiness of the manufacturers to adopt the best methods; the responsiveness of the Government to the ordinary industrial requirements of producers; the scale of output, etc. That part of the Tariff Board's work, therefore, has been mere speculation. This is not to belittle the work of the Board, who have, on every occasion, done their best to produce the best possible evidence to arrive at the most plausible results, to satisfy the standards set up by the third condition. Under the circumstances, they had no option but to base their conclusions on imaginary forecasts based on certain assumptions. But it would be

wrong to suggest that the Board's forecasts were always borne out by subsequent events; in some cases, the industries achieved results much quicker than the Board anticipated; in others, the opposite was the case. In the case of some others, the forecasts were altogether falsified, as for example, when the magnesium chloride industry was refused protection in 1925 on the ground that future costs did not hold out any hope that protection would be unnecessary at a later stage. The industry tenaciously survived and justified its case for protection. Thus, it follows that the third condition has been illogical and superfluous. It has perforce led the Board to stretch their imagination to prove that future costs would or would not justify protection, when it was clear that the first condition itself was the basis on which those forecasts had to be built up. An investigation of the natural advantages of the industry was the only legitimate and admissible part of the Board's findings in each case, as also, of course, the computation of present costs based on them. If the first condition was substantially satisfied, that by itself was the maximum possible guarantee, under the circumstances, that eventually the industry would be able to dispense with protection.

VI

The Making of the Tariff

The process of making the protective tariff was thus described by the Tariff Board on Steel in 1924:[11]

"(1) The answer to the question whether protection is necessary depends in the main on the difference between the two prices: (*a*) the price at which steel is likely to be imported into India from abroad, and (*b*) the price at which the Indian manufacturer can sell at a reasonable profit.

(2) If protection is found necessary, and the advantages to be derived from it are held to outweigh any objections which may exist, then the measure taken must be adequate to secure their purpose.

(3) The scheme of protection should be so adjusted as to inter-

[11] *Report*, pp. 18 ff.

fere as[12] little as possible with those kinds of steel which are not manufactured in India at present and are not likely to be manufactured in the near future."

The Fiscal Commission in paragraph 104 of its *Report* had suggested that the Board might take account of the relative cost of production in India and in foreign countries, which should serve as a guide to the Board "as to whether an industry fulfils the primary conditions laid down for protection." But the Commission desired that this should not be a hard-and-fast rule of computation, "for a high cost of production in India may be due in part to immediately remediable causes and it would be most inexpedient to recommend a rate which might stereotype inefficiency." The chief difficulty in the way of the process suggested by the Fiscal Commission was, however, the unwillingness of the foreign producer to disclose his costs of manufacture, apart from the inherent impracticability of computing accurate costs in numerous cases. For example, the Tariff Board

[12] The theory that protection should be granted only to those lines in a particular industry which are actually produced in India and not to those which are not actually produced but are capable of being produced in the future, has been a short-sighted and incorrect theory. The Tariff Board on Steel laid down this doctrine and in an expository vein stated that the policy of discriminating protection implied that protection should be restricted to the minimum necessary to attain the object, and further that it operated in three ways: "It governs the selection of the industries to be protected, it limits the amount of the protection to be granted and, thirdly, *within each industry* it excludes from the protective scheme those products which are not made and are not likely to be made in India." (*Report*, 1924, p. 56.). Thus, the principle of discriminating protection not only selected the industries, but went further and selected the products within each industry which should be protected. There has been no warrant for this theory of the Board in the discussions of the Fiscal Commission. It is difficult enough for an industry to prove its case so as to obtain protection, but to go further and restrict particular lines within an industry has been the most unimaginative piece of reasoning in fiscal practice. Because certain products are not made in the infancy of an industry, to aver that they will *never* be made is a narrow notion. The steel industry itself has belied the anticipations of the Tariff Board and the Tatas have recently announced their projects of high tensile steel as well as locomotive production. Similarly, the paper industry has been baulked by the Tariff Board's narrow interpretation of

asked the Swedish Match Company to disclose the cost figures of their factories in Sweden but they refused to do so even in confidence to the Board, while they could be persuaded with great difficulty to give information regarding the costs of their Indian factories confidentially. On the other hand, where there are a number of lines being produced in a single factory as in the textile industry, or where products are jointly supplied, it is impossible for the best system of cost accounting to allocate the costs to each accurately or even approximately. The Tariff Board found on various occasions that it was not feasible to compare foreign costs with Indian costs, owing to several other reasons as well. Thus, the Board, in its Steel enquiries found that the cost figures of foreign manufacturers were distorted by fluctuations in the exchange methods of presentation of the accounts, varying conditions prevailing in regard to import duties on materials etc. For these reasons, instead of the probable cost figures in foreign countries, the Board had to calculate the prices at which foreign products were likely to be imported into India, from other available sources, such as the current import prices, pre-war price quotations, and index numbers. In a large number of cases, where dumping was proved, as being due to the activities of an international combine, and where the import price had no possible relation

the scope of discriminating protection. The only varieties permitted, so far as protection is concerned, are writing and printing paper, but craft paper and other varieties are still unprotected. If protection is granted to certain varieties only, it is not a matter of surprise that the manufacturers should concentrate only on the protected varieties and neglect the unprotected ones. Then the Board can always claim that there is no scope for the unprotected ones! However, if one gives a little thought to the question, it should be obvious that it is generally only a matter of time for growing industries to develop the more difficult lines. Experience is a cumulative factor and if wealth-producing capacity is the aim, no artificial impediments ought to be placed in the way of such industries. Sir J. C. Coyajee (one of the members of Fiscal Commission) in his book, *The Indian Fiscal Problem*, p. 138, calls it a "fallacy of ambiguity," that protection should be sought for every grade of an industry. I think, to deny protection to the allied branches of an industry is a fallacy of short-sightedness.

with the probable costs, the current import price could not give any indication as to the future course of prices. In the case of the match industry, for example, the Board had to make its own estimate regarding the import price which would give a reasonable profit to the foreign producer.

The Board's calculation of the measure of protection necessary was, thus, determined by the difference between the probable import price in the immediate future and the price at which the Indian manufacturer could sell at a reasonable profit. "It is indeed obvious," said the Board in their first Report on Steel,[13] "that the need for protection exists in so far as the Indian manufacturer, selling his steel in competition with imported steel, fails to realise a fair profit or incurs an actual loss. We have mentioned the point specially here......because, in our opinion, the difference between the two prices is the natural measure of the amount of protection required......" Further, the Board stated that although the immediate object of a scheme of protection would no doubt be the preservation of the industry as it exists at the time of enquiry, its remoter, and equally important, object should be to attract capital to the industry and promote the development of India's natural resources.[14] However, in computing the "fair selling price," the Board considered the present fair selling price as well as the future fair selling price. By fair selling price, the Board meant the "reasonable" cost of production and not the actual cost of production of any firm, except in one or two cases like Steel and Matches, where special reasons operated. The actual cost of production might be higher or lower than the reasonable or fair cost of production, and would depend upon such factors as purchases of machinery at times when prices were higher or lower, wrong localisation of the factory *vis-á-vis* the sources of materials and the market, and such other peculiarities placing the producer at a special advantage or disadvantage, as the case might be. In ascertaining the reasonable cost of production, the Board took the normally efficient producer

[13] Pp. 18-19.
[14] *Ibid.*, p. 19.

as the basis of calculation, and on that basis, analysed the various elements in the costs of production, such as the works costs, the overhead charges and the manufacturer's profit, taking into consideration all possible economies that were available to a factory which was correctly localised and which an alert and efficient producer might be expected to realise. This was done, in every case, both for the present as well as the future. In calculating the future fair selling price, all possible economies resulting from adoption of new methods, from enlargement of the size of operations, from reduction in salaries of the skilled workers etc., were taken into consideration. Of course, neither the Board nor anyone else could claim that the calculations were exact or that they were always borne out by subsequent events. As we have seen, many of the calculations regarding future costs were falsified by later events, generally on the right side of things though. However, the Board had to aim at approximate results under the circumstances to guide them in their recommendations. Professor Taussig pointedly remarks as follows in this connection:[15]

> In all such discussion, we are confronted with the question, is there a "fair" profit or "normal" price? Is the notion applicable to such industries as the iron and steel industries of our day? Is there a representative firm or a representative outfit whose expenses of production can be said to be normal? How much allowance must be made, in an unbiased and careful process of cost measurement (say in an inquiry conducted by a government bureau) for depreciation, risk, obsolescence, the reward of capable management? The striking thing is that those engaged in the industries speak without hesitation about ascertainable cost and reasonable price. They aver, for example, that the price of twenty-eight dollars a ton so long maintained for steel rails was no more and no less than a fair price. The truth seems to be that they have in mind very much what the economist has in mind; not something which is ascertainable with strict accuracy,—even the most refined system of cost-accounting gives at best a basis for inferences,—but a rough approximation. The cost figure is of service, so far as concerns matters of public policy, mainly in checking *marked* deviations from a reasonable price......Who could say in advance how things would turn out in the long run? How much would have to be allowed for depreciation, running at half-time, contingencies of all sorts? What

[15] *Op. cit.*, pp. 210-11.

is the normal or reasonable rate of return in a manufacturing industry of this kind? A public body (say a Trade Commission) charged with ascertaining and fixing a fair price could not possibly do more than settle an approximate standard.

The best system of cost-accounting cannot cope with some of the problems arising in the process of estimating probable costs. In the first place, the question arises as regards the choice of the normal firm working under ideal conditions, in the proper locality and deriving the maximum advantages which may be normally had under the circumstances. But such a firm hardly exists and as costs must be based on actual working and cannot be ascertained *in vacuo*, the operations of working firms have to be taken into consideration. To consider the cost figures of all the firms in the industry is neither possible nor necessary in most cases; nor can one consider the costs of firms which are not directly affected by the competition of foreign imports. The Board, therefore, generally solved this problem by taking the cost figures of one or more typical firms. In the case of matches, for example, instead of taking an average of the costs of various firms of differing efficiency, they considered the costs of the Ambernath factory of the Swedish Match Company as being typical of a fairly successful venture, working along modern lines and producing those qualities which would be ultimately produced and consumed in the largest quantities, viz., half-size matches, and which were meeting with foreign competition mainly. In certain industries, like steel and magnesium chloride, the Board had no option but to base their calculations on the working of the Tata Company and the Pioneer Magnesia Works respectively. For the plywood and tea chests industry, the estimates were made after an enquiry into the costs of a single firm, viz., the Assam Saw Mills and Timber Co., because it was found to be an economic unit of production. The problem of ascertaining costs is further complicated by the fact that sometimes, the same firm produces different lines of the same product or even different kinds of products altogether. Then it becomes an almost impossible task to allocate the various cost elements in due proportion between the different lines or kinds of products. The question of raw materials is simple enough;

that of unskilled labour even does not present much difficulty here, but the supplementary costs, including overheads such as depreciation, interest on working and fixed capital, management expenses, the entrepreneurial reward etc., make the problem insoluble. In this case, nothing better than a rule of thumb can really be followed. In respect of the cotton textile industry, for example, the varieties of cloth produced locally and imported from abroad were so numerous that comparison between Indian and foreign prices became an insuperable task, and the Murray Tariff Board of 1936 had to compare as many as sixteen different pairs of goods in India and Britain, still to be confronted by the "intermediate" qualities from other countries. In the case of steel products, in view of the specific character of different processes, it was possible to determine the works costs of various products fairly correctly, but the allocation of overhead charges and profit presented considerable difficulty, and allocation had to be made by guesswork as to the value of the plant used in manufacture and the value of stocks and stores required to be held. Where, however, the product is comparatively homogeneous, as in the case of sugar, oil etc., computation of costs has been an easier task. Finally, another interesting point which was discussed by the Tariff Board in their report on the match industry was as regards the part that the revenue duties played in inflating the costs of raw materials and machinery imported by the industry in question. This is what the Board said in this connection:[16]

> It is not explained either by the Government of India or by the Fiscal Commission whether in considering the question account should be taken of the general revenue tariff, which is now 15 per cent. If we are to leave the duty on the competing article entirely out of consideration, we should be putting the foreign industry on a more favourable footing than the home industry, the raw materials of which are subject to the revenue duty. The anomaly is so obvious that the Government of India have directed an enquiry by this Board into several cases where such inequality exists......It is also difficult to estimate with any accuracy how the depreciation and other items of overhead expenses are affected by the revenue duty on steel, building material, cement and other articles, used by the industry in equipment or manufacture. It

[16] *Report on Matches*, 1928, p. 50.

is clear, however, that a substantial burden is imposed on the industry by the revenue duty and that in order to place the Indian manufacturer on a footing of substantial equality with the foreign manufacturer, it is necessary to take this into account in considering whether the industry satisfies the third condition laid down by the Fiscal Commission.

Having computed the present and the future fair selling price of the product to be protected, the average of the two prices is taken to represent as the figure for comparison with foreign import prices. This was the method adopted by the Board in most cases, important exceptions being the steel, sugar, cotton and match industries. The Board, in its report on the match industry, remarked as follows in this connection:[17]

Ordinarily the measure of protection is based on the average of the present and future fair selling prices. This method involves the risk that in the earlier years the industry receives less and in the later years more than the estimated amount of protection. In the case of an undeveloped or partially developed industry which has received no assistance other than that afforded by the normal level of revenue duty, inadequate protection in the earlier years may render progress slow but will not necessarily involve a setback.

To sum up, there is no doubt that so far as cost analysis is concerned, the Board has shown a highly scientific spirit and scrutinised the various elements of costs with remarkable thoroughness, and they can hardly be accused of any undue generosity towards the industries for which they recommended any fiscal assistance. This aspect of the Tariff Board's work must be accepted as fair and competent by even those who would like protection to go still further. If certain industries have failed to obtain fiscal aid, it has been due, therefore, largely to the crippling effects of the triple formula rather than to the methods of tariff-making which go to the measure and not so much to the necessity of protection. Forecasting of future costs of production is also a necessary step in determining the measure of protection required and is so far a sensible need. But when such forecasts are used to decide whether an industry does or does not *deserve* protection (the third condition of the triple formula), they have

[17] *Ibid.*, p. 60.

the dangerous potency of making or marring the industrial future of a country. For this reason, the responsibility laid upon the Tariff Board to speculate on future events for the shaping of fundamental decisions has been not inconsistently condemned in the foregoing pages.

VII

Bounties versus *Tariffs*

The classical theory of fiscal policy prefers bounties to tariffs on the grounds, among others, (*i*) that bounties are more specific in their application and therefore better amenable to control than tariffs, (*ii*) that the burden of bounties can be shifted to the general taxpayer in a somewhat deliberate manner, whereas that of tariffs falls upon consumers who are generally poor, and (*iii*) that bounties are administratively more convenient in that while import duties necessitate an enormous staff to assess values and prevent smuggling etc., bounties can be more cheaply managed. However, there are numerous practical disadvantages attaching to bounties. In the first place, there is the budgetary problem of arranging new suitable taxes to provide for the bounties. Secondly, whereas a system of tariffs leaves equal scope to any new venture which might arise, the bounties assist mainly those firms which are already in existence. Thirdly, it is difficult to apply the bounty system to industrial products which are not uniform in size or quality, or which have numerous varieties. The Government of India preferred bounties to tariffs in the case of the steel industry in 1924-25, for the reason that the imposition of duties would mean an excessive burden on all the consumers of steel. But the consumers were no other than the railways, the mining and other industries, port trusts etc. In this case to prefer bounties to duties implied a transfer of the burden from a comparatively well-to-do class of investors to the general taxpayer who in India is in view of the system of taxation, still largely poor. One is not sure, therefore, that from the distributional standpoint, the bounty method had anything superior about it, in this case. There is no doubt, however, that the bounty method

could lend itself easily to protecting a comparatively homogeneous product like steel. The same was the case with cement; homogeneity was a point in favour of bounties as recommended by the Board, but, of course, the Government refused protection altogether in its case. Bounties were also proposed on a sliding scale for the wagon-building industry, along with guaranteed purchases by the Government. As the Government themselves were the principal purchasers, the system could work successfully, and the product too was capable of standardisation. On the other hand, tariffs have always been adopted for purposes of protection in a large number of industries, like cotton textiles, silk, sugar, magnesium chloride, gold thread, and paper, where for one reason or another, such as lack of homogeneity of the product or difficulties of raising enough revenue otherwise, the bounty method could not be adopted.

As theoretical freetraders, here and elsewhere, still support bounties as against tariffs, this question is of some practical interest to Indian fiscal policy, *viz.*,—Is there any set of reasons, why in the case of India bounties should be preferred? Where the consumer is poor, an import duty is likely to fall on him, and hence by means of the bounty method it is feasible to transfer the burden of protecting an essential industry on to the shoulders of the general taxpayer who may be presumed to be better-off. This state of affairs, however, generally exists in European countries like England, where the consumer of imported commodities *is* generally poor, and, therefore, there is some point in the argument in favour of bounties. Thus, for instance, if a particular industry is not sufficiently developed, to tax the entire imports of the relevant commodity, for developing a small industry which is not in a position to supply the whole of the internal market, must impose a burden on the poor consumers for nothing. Here bounties, corresponding specifically to the amount actually produced, would be superior. But in India, as we shall see in a subsequent chapter dealing with the burden of protective duties, as the imported goods are consumed largely by the town-dwellers, *i.e.*, by the rich and middle-class people, except in two or three cases, the burden of import duties does not fall upon the poor to the same extent as in countries of the

West. The distributional argument in favour of bounties does not appear to be so strong in India; if any industry does not cater for the whole of the internal market, and if the duties bring in revenue that way, it must fall on broad-shouldered persons only. Secondly, the possibility of making the foreigner pay, which is generally strong in the case of countries with an elastic demand for foreign imports, can be availed of with tariffs but not with bounties. Thus the United States, with her alternative internal supplies of goods, has always been in a strong position to "tax the foreigner."[18]

India also, happily, is in the same position, because most of her imports are luxury goods, which, moreover, are capable of being replaced by internal production, and because, consequently, her demand for foreign imports is very largely elastic. Thirdly, the bounty method is likely to lead to overproduction much sooner than the tariff method, because while excessive production under a system of tariffs must involve business men in losses (which would automatically lead to re-equilibrium), bounties might provide an easy way of recoupment of losses. Fourthly, from the revenue standpoint, tariffs must appear to be preferable, for bounties must necessitate alternative sources of revenue for their payment. While bounties are an item on the debit side, import duties are one on the credit side of the budget. If revenue is at all to be raised, and at the same time if protection is to be gradually made effective, the natural course appears to be to allow the burden to fall on those persons (viz., the consumers) who are likely to benefit later by the growth of the industry concerned. Under certain circumstances, it is quite conceivable that the internal price of the protected commodity might be brought down to a level lower than the pre-protection level. If the consumers are well-to-do, the case for tariffs is strengthened still further. To sum up, therefore, in the special case of India, there does not appear to be any particular advantage in adopting the bounty method, whether we consider the question from the standpoint of the revenue, or the relative burden of the duties and bounties, or the needs of the industry.

[18] Pigou, *A Study in Public Finance*, p. 214.

VIII

Fiscal Measures against Dumping

As Professor Gregory remarks,[19] it is extremely difficult to provide an adequate definition of "dumping;" according to him, even so distinguished an analyst as Professor Pigou does not provide us with a definition, keen as his analysis of anti-dumping legislation is. The Fiscal Commission (*Report*, paras. 133-141) discussed the question of dumping at some length but left some lacunae, as a result of which the Tariff Board felt itself debarred from regarding certain forms of discriminatory sales as excluded from the concept of "dumping." In Section i of this Chapter, we have already seen that the Indian system of protection has unconsciously developed into a safeguarding system. This was mainly due to the presence of unfair competition and dumping, brought about either by deliberate policies or by temporary causes of world-wide operation. In spite of this, however, it is important to note that India has still no definite anti-dumping law. This fact was brought out by the Tariff Board in their report on the match industry.[20] What provision has been available against this type of activity of foreign competitors is by way of the protective duty or sometimes the revenue duty; but there has been no special anti-dumping legislation as such except the short-lived Safeguarding of Industries Act of 1933. And yet, after going through the relevant evidence for the various industries investigated by the Board, there is no doubt left in one's mind that the principal factor against which the Indian industries have had to fight all these years has been the factor of unfair competition, or dumping, by whatever name we may indicate it. In their Report on Steel, the Tariff Board admitted that the British steel manufacturer was selling steel for export at lower prices than he accepted from British purchasers and the Continental producers also followed the same practice; but they said they had received no evidence to suggest that any deliberate

[19] *Tariffs, A Study in Method.*
[20] *Report on Matches*, p. 48; cf. Chapter VIII, Section ii, *supra.*

policy of cutting prices was being pursued "with the object of killing the industry in India."[21] In the case of the chemical industry, likewise, the Board opined that the foreign international combines were selling chemicals at unfair and uneconomical prices, which were considerably below prices charged by them in other countries. The Board could not, however, decide whether it was dumping as such, but stated that "in any case, whether the competition is unfair or not, the practice of selling at very low prices for the Indian market, if pursued, may seriously endanger the purpose which we have in view, namely, the establishment of the chemical industry in India."[22] Whether, under the circumstances of each industry, there has been dumping, of one kind or another, whether there has been any intention on the part of the "dumpers" to kill an indigenous industry,—such and other questions are of theoretical interest only; the fact to be noted is that unfair competition, whether it proceeds from monopoly, exchange depreciation, overpoduction and temporary glut, or depression of a world-wide character, or anything else, is capable of destroying the industry concerned or nipping it in the bud. From the point of view of the Indian industrial structure, the important point is that there is unfair competition of one kind or another.

The Fiscal Commission defined dumping as the "sale of imported merchandise at an F.O.B. price lower than the prevailing market or wholesale price in the country of production."[23] The causes of such dumping might be (*i*) accidental over-production, (*ii*) monopoly in the domestic market due to tariff protection, or (*iii*) a desire to extinguish a foreign industry by deliberately selling at a loss. If the dumping is of a systematic character, and not temporary or casual, it might do serious injury to a country's industry, and where it is deliberate, "it would be clearly incumbent upon the State to take measures to prevent the success of such a policy." The Fiscal Commission recognised the difficulty of proving the exis-

[21] *Report on Steel*, 1924, p. 25.

[22] *Report on Heavy Chemicals*, 1929, p. 56.

[23] *Report*, p. 65.

tence of dumping, but the difficulty was not insuperable and other countries had been able to prevent dumping more or less successfully. Accordingly, the Commission suggested permanent legislation to counteract dumping, on the models provided by such countries as the United States and Australia. The Commission favoured the system under which there was a previous, full-fledged enquiry into allegations of dumping before any action was taken. Unfortunately, in spite of the Commission's recommendations, there is so far no law on the statute book in India which would enable the Government specifically to prevent unfair competition. There is great need of arming the Government with the general power of imposing safeguarding duties on any commodity after proper enquiry in each case. We shall, therefore, briefly consider the lines on which such legislation will have to be undertaken. As one writer puts it: "The conditions, that the industries are asked to fulfil, before relief is given, ought to be the same for all industries. In other countries these conditions have been laid down and do not vary. So far this has not been done in India and consequently these conditions vary. Consistent decisions and continuity of policy can never be secured unless these conditions are laid down and be the same for all industries."[24]

The best definition of dumping is that given by Professor Viner in his classical works on the subject:[25] "Dumping means price discrimination between different national markets." Professor Taussig, Sir William Beveridge and Professor Arnold Plant consider dumping to consist in selling goods at cheaper prices in foreign markets than in the domestic market.[26] It is possible, however, for an international

[24] N. N. Das, article on "Unfair Competition" in the *Indian Journal of Economics*, July 1935, p. 49.

[25] *Dumping: A Problem in International Trade*, p. 4; also *Memorandum on Dumping*, (League of Nations, 1926).

[26] Taussig, *Principles of Economics*, Vol. II, also *Some Aspects of the Tariff Question*, pp. 204 ff.

Beveridge, *Tariffs, the Case Examined*, p. 125.

Plant, *Ibid.*, p. 262.

combine, like the Swedish Match Company or the Imperial Chemicals Ltd., to discriminate between different markets in an aggressive manner, and here the costs of the home country of the firm such as Sweden or England may be irrelevant. This problem arose in the case of the match industry, as we saw in Chapter VIII, Section iii. The narrow definition suggested by the Fiscal Commission would have easily enabled the Swedish Company to avoid criticism on this count, because the comparison of prices between Sweden and India did not show much discrimination, but as between other markets and India, it did. Professor Viner classifies different types of dumping under ten heads according to *motive* and according to the *time* factor.[27] Dumping may be to dispose of a casual overstock; it may be unintentional; it may be sporadic or, short-run or intermittent, or long-run and continuous; it may be for developing or maintaining a market or for eliminating or forestalling competition; it may be to secure economies of large-scale production or to counter a protective duty or for purely mercantilist reasons. Dumping, again, may take different forms: in ordinary dumping, there is clear price discrimination as disclosed by comparison of invoices or market quotations, in "sales dumping," the invoice prices may not show any discrimination, but goods exported are sold by traders or from stocks on "consignment" by agents, in the receiving country, at lower prices; similarly, "bounty" dumping, freight dumping, exchange dumping etc. may occur under varying circumstances. The species is a large one, but whatever be the intention or duration or character of the dumping, there is no doubt about its harmful effects upon the national industrial structure. Classical economists are apt to look upon certain types of dumping as beneficial to the receiving country, especially to the consumer element in that country; but the advantage derived by the consumer is at the expense of the producer, and, especially if the country is industrially backward and possesses a large mass of unemployed labour, it is bound to be more than counterbalanced by the harm done to

[27] *Op. cit.*, pp. 23 ff.

the national dividend as a whole. The classical approval of certain types of dumping (which are not aimed at destroying the other country's industries and which are due to the desire to reap the benefits of large-scale production etc.) is, thus, inapplicable to the case of country wishful to develop industries and possessing potentialities in that direction.

Coming to the methods of controlling the various types of dumping, first of all, we have to decide as to the exact types of dumping against which action is necessary. It is suggested by some that sporadic dumping need not call for any action, because the industry may be quite capable of tiding over it without fiscal aid. This may be true of the well-developed, adult industries of an advanced nation, but where most industries are in their infancy in a backward country, even sporadic dumping can be a deadly potion to a struggling industry. Secondly, the presence or absence of motive is out of the question, and the hesitation which, for example, the Tariff Board felt in declaring the British competition in the case of steel in 1924 (see *supra*) as dumping, was not justified either by the needs of the Indian industry or by the policy of discriminating protection. Some writers (like Professor Plant) doubt the ability of a body like a Tariff Board to prove the existence of dumping in a very definitive manner owing to the difficulties in the way of obtaining foreign price quotations. This difficulty was also recognised by the Fiscal Commission which, on that ground, recommended that India should follow the American model, under which anti-dumping measures are taken only after a searching enquiry into the question of prices at home and abroad. In Canada, on the other hand, action is taken straightway under executive orders and thus a searching enquiry is debarred. However, there is no doubt about the efficacy of the Canadian method in checking the evil in its earliest stages and preventing the collapse of an industry. If, as in the South African Act 1914, previous notice has to be given of the duties, goods will be rushed in during the period of the notice. If a detailed Tariff Board enquiry is ordered before taking action, the delay in the final action may give ample opportunity to the dumpers to ruin the domestic industry. Such procedure will amount

"to closing the stable-door after the horse is stolen."[28] Under the circumstances, it appears the best method will be a combination of quick executive action and a detailed enquiry. As soon as there is sufficient *prima facie* evidence that dumping is taking place, the Government should take immediate steps by way of imposition of anti-dumping duties. After doing so, the Tariff Board should be asked to make a detailed enquiry. If the allegations are proved, duties should be continued; if not, they should be discontinued and the money refunded to the parties concerned. This will cause the minimum of injustice and at the same time will meet the requirements of urgent action. It will also have the desirable effect of creating uncertainty for dumpers. In this connection, so far as anti-dumping measures are concerned, we might usefully adopt the provisions of the Australian law against dumping, after modification. This was also approved of by the Fiscal Commission, but recently it has been revised and improved. The relevant sections of the Customs Tariff (Industries Preservation) Act, 1921-33, are quoted below:[29]

(1) If the Minister is satisfied, after enquiry and report by the Tariff Board, that goods exported to Australia, which are of a class or kind produced or manufactured in Australia, have been or are being sold to an importer in Australia at an export price which is less than the fair market value of the goods at the time of shipment, and that detriment may thereby result to an Australian industry, the Minister may publish a notice in the Gazette specifying the goods as to which he is so satisfied.

(2) Upon the publication of the notice there shall be charged, collected and paid to the use of the king, for the purposes of the Commonwealth,......a special duty.

(3) The amount of the dumping duty in each case shall be the sum which represents the difference between the fair market value of the goods at the time of shipment and the export price.

(4) The regulations may provide for the exemption of the following goods from duty......(*e.g.*, where the difference does not exceed 5 per cent of the domestic price, no duty should be levied etc.).

(7) If the Minister is satisfied, after enquiry and report by the

[28] Sir William Beveridge, *op.cit.*, p. 129.

[29] D. B. Copland and C. V. Janes, *Australian Trade Policy*, pp. 365, 42-3.

Tariff Board, that any goods exported to Australia......have been or are being carried (*a*) in ships at rates of freight lower than the rates of freight prevailing at the date of shipment; or (*b*) at ballast rates of freight, being rates lower than the rates of freight prevailing at the date of shipment; or (*c*) freight free......(duties against freight dumping).

(8) If the Minister is satisfied......that the exchange value of the currency of the country of origin of any goods has depreciated in relation to Australian currency......(duties against exchange dumping).

In their first Report on Steel, the Tariff Board in India discussed[30] the question of imposing additional duties, if the import prices of steel fell below those on which the scheme of protection was based. The recommendations made in that report were accepted by the Legislature in the Act of 1927, and the Governor-General in Council was empowered to impose additional duties, if he was satisfied that goods were entering at such prices as to render the protection ineffective. However, that provision for "offsetting duties" applied to an industry which had actually received protection and its object was merely to render the protection granted effective. When the Tariff Board made a similar recommendation in the case of the heavy chemical industry,[31] on the ground that the industry was particularly liable to "unfair competition," it was not adopted because the scheme of protection itself was first vitiated and then abandoned. Thus, it is clear that the power granted under that Act was available only if there was also a scheme of protection in existence with regard to the industry concerned. It was not an independent power directed against dumping. Similarly, the power given to the Governor-General in Council under Section 4 of Act No. XXXII of 1934, to levy off-setting duties to prevent the protective duty from becoming ineffective applies to protected industries only. Under that section, provision is made for executive action for the increase or reduction of protective duty after such enquiry as the Governor-General in Council thinks fit, if he is satisfied that any particular duty has become ineffective for the purpose of securing the protection intended to be afforded, but this

[30] *Report on Steel*, 1924, paras 33-38.
[31] *Report on Heavy Chemicals*, p. 56.

power of varying the amount of duty is exercised under special circumstances as, for example, when the currency of a foreign country has been depreciated to such an extent as to give an unfair advantage. Accordingly, the Tariff Board suggested in its enquiry on magnesium chloride in 1938 that in the event of an attempt being made to undersell the Indian producer (below Rs. 1-8-0 per cwt.) the above power should be exercised.[32] However, when the paper manufacturers asked the Board to recommend a sliding scale of protective duties to cope with the problem of fluctuating prices, the Board declined to do so, on the ground that a sliding scale would be contrary to the meaning of the offsetting power.[33]

The point, however, which needs emphasis here is that the Government have not adopted any measures to counteract dumping in a more direct and general way. An industry has to pass through the Tariff Board ordeal, qualify itself for protection and thus avail itself of the offsetting duties, if the Government comply. When the Fiscal Commission recommended specific legislation against dumping,[34] it did not envisage this sort of offsetting power but a more general power applicable to any industry which sought shelter under it. Unfortunately, no heed has been paid to that recommendation of the Fiscal Commission, and, consequently, a number of industries, like the heavy chemical industry (*e.g.*), have been prevented from getting any advantage of fiscal arrangements of a safeguarding nature such as are prominent in the fiscal laws of most modern countries. In view of the important finding of the foregoing pages that unfair competition, in all its various forms, has been complicating the fiscal problem of India, it is clearly essential that there should be a clear-cut division of the fiscal law into its parts and that anti-dumping legislation should be separated from the specific question of protection. Under present conditions, I think, the fiscal law of India can be considered under four heads as follows:

[32] *Report on Magnesium Chloride*, 1938, p. 15.
[33] *Report on Paper*, 1938, p. 54.
[34] *Report of Fiscal Commission*, pp. 67-9.

(*a*) Protective duties of a fundamental and developmental character designed to help struggling industries to attain the necessary strength to stand foreign competition.

(*b*) Preferential and bilateral fiscal arrangements.

(*c*) Anti-dumping duties designed to safeguard the national industries from predatory competition, whether of short or long duration, including dumping of all kinds, and

(*d*) Revenue duties.

Barring the last variety, the Tariff Board should be required to investigate all matters relating to tariff changes and requirements of different industries. But in every case, the purpose should be distinctly stated and the duties should be specifically and separately recommended. Even in the case of revenue duties, occasionally in regard to tariff equality or balance, as at present, the Tariff Board may be required to undertake examination of the economic consequences of fiscal measures.

IX

Fiscal Policy and the Trends of Foreign Trade

The classical theory of fiscal policy opposed protection on the ground, among others, that protection reduced not only the imports of a country but also its exports and postulated a close inter-relation between the two series of transactions, *viz.*, imports and exports. As Marshall put it, "By as much as it hinders imports, by so much it must, in the long run, interfere with the development of an export trade."[35] This notion was further crystallised into the statement that "exports pay for imports," implying a boomerang effect on exports if imports are reduced. In Chapter I, we have already seen the fallacy of this statement. It is of course true that, with the growth of economic nationalism of a rabid kind, the world trade has dwindled considerably as the League of Nations publications on the subject definitely prove. If all countries simultaneously restrict imports, all countries must at the same time find their exports reduced more or less to

[35] *Money, Credit and Commerce*, p. 218.

the same extent. Where national prosperity is sought at the expense of others, where abolition of unemployment is attempted by increasing unemployment elsewhere, such repercussions are bound to ensue, if all countries adopt the same policy. The history of the last decade conclusively shows the unwisdom of the attempts of European countries to thrive at the expense of each other by means of, what Mrs. Robinson calls, a "beggar-my-neighbour" policy. There is no doubt that insensate protectionism has this consequence if it is adopted by several countries simultaneously. But the *modus operandi* is not that exports fall because imports have fallen, that reduction of imports forces the foreigners to reduce their purchases of our exports, or that there is any direct relationship between exports and imports of goods, but that the repercussions are due to all countries simultaneously adopting the same policy. The decline of international trade, *i.e.*, of exports as well as imports during the last decade must be interpreted in this sense. However, when we come to the case of the *infant-country* variety of protection, *i.e.*, developmental protection, *which exploits the unutilised margins of unemployed human and material resources and of potential efficiency, the conclusion is quite the contrary.* Here there is no question of "beggaring the neighbour," as the rise in national income is due to increased wealth-producing capacity, which even leading freetraders have admitted to have the effect of extending the welfare of the world as a whole. Hence even a cursory examination of the foreign trade of protectionist countries, during say 1850-1914, shows an enormous increase *both* in imports as well as exports.[36] This has been the experience of Germany, of France, of Japan and of the

[36] *Cf.* G. R. Roorbach, "The Effect of the Tariff on the Import Trade of the United States," in the *Annals* of the American Academy of Political and Social Science (January 1929, p. 27). Mr. Roorbach says: "On the whole, it seems probable that the direct effects on the total volume of imports are less than is usually supposed. Since the end of the Civil War, during which period the United States has been under a protective system almost, if not quite, without interruption, our import trade has enormously expanded. Fluctuations that have occurred seem to be related chiefly to factors other than the ups and downs of tariff rates."

United States. If we take a recent example of a different kind, this has also been the experience of Russia, whose internal economy has been developed on the principle of "pump-priming" and regardless of the dictates of *laissez-faire*. What has been the cause of this apparent contrariety? There is no doubt that the rise in foreign trade has been merely a reflex of the growing internal prosperity. A growing national economy must necessarily have larger imports and must export more goods to keep itself going. The apparent contrariety is explained further by the fact that, although effective protection must prevent imports of the protected articles, increased prosperity must lead to greater imports of unprotected ones, including machinery, raw materials and luxury goods. Thus it is the *character* rather than the volume which is likely to be affected more.

How far do the figures for India's foreign trade bear out the above conclusions? In the case of India, protection has been comparatively a minor factor in determining the course of trade, in the first instance because not only has the general level of protection been moderate but it has been applied to a small number of industries. In so far as protection was of anti-dumping or safeguarding variety, it has merely maintained the *status quo* of operating forces, because if such duties were not levied, imports would have been encouraged to a greater extent than before. Developmental protection as such has been thoroughly applied only in the case of two or three industries, like sugar, paper, etc. A part of the protection afforded the steel industry, as well as cotton textiles, matches and some of the smaller industries, may be regarded as of a positive character. If we glance at the schedule of imports, we shall see that the protective duties affect not more than 25 per cent of India's imports (1939) and did not affect more than 35 per cent of the imports (1924) prior to the introduction of protective measures. What with this small proportion and what with the low level of duties and the small degree of positiveness about them, the effect of the protective measures taken must be comparatively small.[37]

[37] *Cf.* Parimal Ray, *India's Foreign Trade since* 1870, p. 125.

But apart from all these facts regarding the nature and extent of Indian protection, forces of far greater significance have influenced the course of trade during the years under consideration. The great currency upheavals which followed the last war, involving devaluation in several cases, and those which occurred during the last Depression have no doubt had their repercussions on India's foreign trade, its course and distribution. Then the agricultural depression which preceded the industrial one and commenced in 1926, upsetting the balance between agricultural and industrial prices, impoverishing the agrarian countries and causing a glut in the markets for raw materials and food-stuffs, very much affected India's exports to foreign countries as also her imports which were reduced by the diminished purchasing power of the people. Then came the industrial depression making the position still worse, both ways. During this whole period, again, the world witnessed the emergence of a new and rabid type of economic nationalism, involving quotas, bilateral trade agreements, preferential arrangements, exchange restrictions, and other impediments in the way of trade, which naturally caused diminution in India's export trade. Finally the recovery of 1934-37, followed by the feverish activity in western countries caused by war preparations, again had a favourable influence on India's exports for some time. In this medley of forces, it is impossible to separate out the exact consequences of protection on the *volume* of foreign trade.

TABLE II

The Course of Trade (1923-30)

(In Crores of Rs.)

	1923-4	1924-5	1925-6	1926-7	1927-8	1928-9	1929-30
Imports (merchandise only) ...	228	247	226	231	250	253	241
Exports (do.)	349	385	375	301	319	330	311
TOTAL ..	577	632	601	532	569	583	552

In Table II above are given figures for imports and exports of merchandise only for the years 1923-30. It will be seen that imports did not show any declining tendency up to the end of the period; exports suffered some decline, but this was due to the fall in the prices of exported commodities. On the basis of the import and export prices of 1913-14, the following quanta are available for the above figures:

TABLE III

Quantum of Trade (1923-30)

(In Rs. Crores)

	1913-4	1923-4	1924-5	1925-6	1926-7	1927-8	1928-9	1929-30
Imports	183	120	137	143	156	181	190	189
Exports	244	240	250	246	228	248	260	263
TOTAL	427	360	387	389	384	429	450	452

From the above figures, it will appear that there was no decline either in the imports or exports as compared to the pre-war year 1913-4. This finding indicates that the adoption of the protectionist policy in 1923-4 did not mark an era of declining trade, at any rate, although the European boom during 1924-29 (in which India did not participate) might have something to do with the rise in exports.

In recent years, however, both the import and export trades of India have suffered considerably as will be seen from the following figures:

TABLE IV

The Course of Trade (1931-39)

(In Rs. crores)

	1931-2	1932-3	1933-4	1934-5	1935-6	1936-7	1937-8	1938-39
Imports	126	133	115	133	134	125	174	152
Exports	161	134	147	152	161	196	181	163
TOTAL	287	267	262	285	295	341	355	315

The havoc that has taken place in India's foreign trade recently is amply explained by the causes enumerated already in this Section; depression, currency fluctuations, economic nationalism etc., have all been equally operative. The fall in trade cannot by any means be attributed to the fiscal policy pursued during the last two decades. At the same time, protection has had much to do with the changing character of our foreign trade. Many of the protected commodities show declining values in imports, while other sorts of imports have gone up. Similarly, on the export side, food-stuffs and agricultural raw materials show generally a declining tendency, while mineral products have been showing considerable increases.

TABLE V

The Character of Foreign Trade (Imports)

(In Rs. Crores)

	1924-25	1937-38
Cotton and cotton goods	86.57	27.68
Metals and ores	26.55	13.39
Sugar	20.66	.18
Machinery etc.	14.74	17.15
Oils	9.69	18.70
Railway plant etc.	5.83	...
Hardware	4.98	3.31
Silk raw and manufactured	4.92	2.86
Vehicles	4.41	8.92
Wool raw and manufactured	4.35	4.15
Provisions etc.	4.14	2.60
Liquors	3.28	2.30
Paper and paste-board	3.03	4.14
Instruments etc.	3.02	6.13
Dyes	2.90	3.94
Spices	2.77	1.83
Glass and glass-ware	2.60	1.52
Chemicals	2.08	3.32
Tobacco	1.97	.85

	1924-25	1937-38
Drugs etc.	1.69	2.36
Fruits and vegetables	1.59	1.58
Rubber	1.56	1.89
Apparel	1.54	.68
Salt	1.42	.56
Soap	1.32	.24
Paints etc.	1.26	1.02
Haberdashery etc.	1.15	.63
Other articles	26.60	41.96
TOTAL ..	246.62	173.79

It will be seen from the above table that some of the imports have declined in importance, while others have risen. Cotton and cotton manufactures show a decline owing to the growth of the indigenous cotton industry, metals and ores and hardware have fallen owing to the rise of the iron and steel industry principally; sugar shows a drastic fall, no doubt caused by the phenomenal growth of the Indian industry. On the other hand, machinery has more than maintained its place; oils, including mineral and lubricating oils, have gone up owing to the requirements of the new industrialism; so also vehicles, especially owing to the motor transport; instruments, dyes, and chemicals have registered substantial increases which are accounted for by the growth of Indian industries. In recent years, moreover, three very important groups of articles have come into prominence, *viz.*, grain, pulse and flour, Rs. 12.17 crores in 1937-38; artificial silk, Rs. 4.87 crores; and wood and timber, Rs. 2.98 crores. Of these the first is a fluctuating item depending upon the condition of the harvests, while artificial silk has largely replaced the imports of silk. The main conclusion to be drawn from the above set of figures is that the character of the import trade has changed in such a manner that protected goods now figure less in the import trade, while the growth of industrialism, with the accompanying rise in the standards of living of the industrial classes, has encouraged the imports of certain cheaper sorts of luxuries.

TABLE VI

The Character of Foreign Trade (Exports)

(In Rs. crores)

	1924-25	1937-38
Jute raw	29.09	14.72
,, manufactures	51.76	29.08
Cotton raw etc.	91.96	29.77
,, manufactures	11.27	9.29
Grain etc.	65.06	9.49
Tea	33.39	24.38
Seeds	33.16	14.19
Lac	7.55	1.62
Leather	7.28	7.25
Metals and ores	7.18	6.12
Hides and skins	6.77	5.04
Wool raw and manufacture	6.21	3.72
Oil cakes	2.20	2.43
Coffee	2.08	.55
Opium	1.47	.01
Rubber raw	1.42	.83
Wood and timber	1.40	.29
Paraffin wax	1.36	.51
Spices	1.06	.93
Other articles	22.99	20.70
TOTAL ...	384.66	180.92

On the export side, there are few outstanding changes in the character of India's foreign trade. A large majority of items still continue to be raw materials of industry, which indicates the slow progress of industrialisation; among the manufactures exported, jute and cotton goods are the main items. The drastic fall in the value of total exports has been due to the numerous causes mentioned already, including the fall of prices which to some extent exaggerates the fall in the quanta of exports. The fall in total exports (value) can certainly not be ascribed to discriminating protection.

X

Fiscal Policy and the Government Revenue

In the previous Chapter (Section i), we briefly examined the influence of the Government's revenue policy on the course of fiscal policy. The increasing reliance placed by the budget-makers on the revenue from customs in balancing budgets was further emphasised in recent years as may be seen from the following figures:

TABLE VII

The Preponderance of Customs Revenue

(In Rs. crores)

Year	Customs	Total tax revenue
1926-27	46.56	72.03
1927-28	47.36	71.96
1928-29	46.34	75.06
1929-30	50.30	75.95
1930-31	45.87	69.87
1931-32	45.53	72.59
1932-33	51.02	73.50
1933-34	46.17	72.32
1934-35	52.67	80.85
1935-36	52.24	79.42
1936-37	51.44	77.03
1937-38	43.10	75.21
1938-39*	40.14	72.79
1939-40†	40.65	73.54

* Revised. † Budget.

It will be seen from the above figures that "customs" now accounts for between 55 to 70 per cent of the total tax revenue.

During the last three years, customs receipts have dwindled, but this has not been due to any reduction in the rates of tariff. The fact, however, that the Government of India has to make its ends meet largely from the customs is a source of obstruction to the pursuit of a proper fiscal policy. The Finance Members of the Government of India have throughout given more weight to "revenue considerations" than to the fiscal and industrial aspects of the tariff. In fact, the Fiscal Commission stated that protection itself would be a source of revenue to the Government, and considered that for many years reduction in the revenue derived from customs was unthinkable.[38] The resolution of the Legislative Assembly which adopted discriminating protection as India's fiscal policy also stressed that the fiscal policy laid down by the Fiscal Commission will have to be pursued with due regard to the revenue needs of the Government.[39] Where free trade is the guiding principle, "duties for revenue only" or "revenue considerations" can be permitted to influence fiscal decisions, but if industrialisation through a helpful fiscal policy is the aim, such shibboleths can have no place. The Fiscal Commission stated that increase in customs revenue was an urgent necessity, inasmuch as the commercial community was opposed to any increase in direct taxation. Professor Vakil very aptly remarks as follows in this connection: "In discussing this point, the Commission shows a serious lack of economic knowledge. The simple truth that a really effective protective tariff will not yield large revenue is ignored. The possibility of an increase in income-tax receipts from the existence of new industrial concerns which will spring up under the tariff wall is forgotten and a capitalistic denial to an increase in direct taxation is given with characteristic indifference to the interests of the general mass of the people for whom great concern is shown in other parts of the Report."[40] In fairness to the Commission, it may be admitted that they also looked forward to an increase in re-

[38] *Report*, pp. 35-36.

[39] Resolution of the Legislative Assembly, dated the 17th February 1923.

[40] *Our Fiscal Policy*, p. 123.

venue from industrialisation,[41] but they laid an undue amount of emphasis on the protective tariff as a source of revenue. The Government of India, therefore, has all along come to look upon the protective tariff as the buttress of their budgets. Any fall in the revenue from such protective tariff has only irritated the budget-makers, when they should have known that it is one of the inevitable consequences of protection. This in spite of the fact that in most cases, such as iron and steel, sugar etc., the so-called "loss" in customs revenue was amply made up by "gains" in other direction, *viz.*, increased income-tax payments, excise receipts, increased railway earnings, increased customs revenue due to larger imports of machinery and materials etc. Finance Members, who should have known better, objected now and again to protection on the ground of the "loss" of customs revenue, but if their calculations were not so myopic, they would have seen that there is not necessarily any net "loss" due to protection. However, the word "loss" itself is, in this connection, a misnomer. The effect of an economic policy on the revenue of the Government can never be the guiding criterion of policy, because the business of government is part of the business of the country as a whole. The only true criterion of an economic policy is the size of the national dividend and its distribution among the individuals in the nation. If any policy increases the national dividend and at the same time does no harm to the distributional balance, it stands self-justified and little else matters. If the Government's revenue falls as a consequence of such a policy, it only suggests a readjustment of the scheme of governmental finance, and it cannot be taken as a reflection upon the working of the policy. There is no doubt that during the last decade or so, the Government of India has felt increasing difficulties in balanc-

[41] *Cf. Report*, p. 23, where they say: "Now so far as industrial development increases the national wealth, it will of course also increase the taxable resources of the country and bring increased revenue to the State......The profits of industries on the other hand are taxed mainly through the income-tax, and also after distribution to individuals contribute largely to the customs, and both these are sources of revenue which respond immediately to increased wealth."

ing its budget; but this has been due to the ravaging effects of the Depression and the failure of the Government's economic policy to enable the country to face them. More and not less industrialisation, more and not less economic activity, more and not less productive efficiency (which can only come about through mechanisation), is what the situation requires. So long as the Government continue to permit their economic policy to be influenced by the "conflict of interests" and refuse to support wholeheartedly the cause of industrialisation, they must carry on their hand-to-mouth existence on the budgetary side.

CHAPTER XVIII

IMPERIAL PREFERENCE AND BILATERALISM

In recent years, India's fiscal policy has been adapted to the principles of Imperial Preference and Bilateralism, under stress of peculiar circumstances which threaten to play a permanent part in the scheme of world affairs. It becomes necessary, therefore, to enquire how far modifications are essential in the system of discriminating protection set up thus far and, if they are essential, in what particular manner we can permit their operation in India without detriment to our future industrial and commercial interests. It is not intended here to go into the merits of the general question of Imperial Preference and bilateralism as problems of the world economy nor, for reasons of space, much into the historical aspects of the question. The question of immediate interest is, whether in view of the experience of recent years in this direction India stands to gain from the adoption of such policies or lose from their non-adoption. India's fiscal arrangements so far have been based upon the "single autonomous tariff," implying the power to regulate the tariff at will and without reference to any outside party,[1] and as a unit of the British Empire, she has enjoyed the benefit of the "most-favoured nation" principle. The advent of Imperial Preference has upset the free working of the principle of discriminating protection, with which it is undoubtedly at loggerheads; it has also stood in the way of securing full advantages under a system of bilateral pacts with non-Empire countries. It may be recalled that in March 1936, the Legislative Assembly passed a resolution favouring the conclusion of bilateral trade agreements with foreign countries and the

[1] B. K. Madan, *India and Imperial Preference*, p. 211.

termination of the Ottawa Agreement.[2] Partly as a reaction to some of the inequities of the Ottawa Agreements, which have been forced upon India in the teeth of opposition both in and outside the Central Legislature, there has also been voiced a popular demand on the part of politicians, economists and commercial bodies in favour of a reorientation of the fiscal policy in the direction of bilateralism.[3] This question of our future trade policy in view of the changing structure of international trade must be considered in all its implications, and with reference to different possible eventualities.

I

Imperial Preference—Historical

Indian public opinion has consistently opposed the introduction of Imperial Preference into the fiscal system from the very beginning. Till the final adoption of protection as a policy by the United Kingdom and the enunciation of Empire Free Trade by the dominant political party, *viz.*, the Conservatives, in 1931, the attitude of the Government of India also was largely antagonistic to a general adoption of the principle in India.[4] Lord Curzon's Government in 1903

[2] The resolution was worded as follows: "This Assembly recommends to the Governor-General in Council that the Ottawa Agreement dated the 20th August 1932, be terminated without delay and notice of denunciation be given in terms of Article 14 thereof. The Assembly further recommends that the Government of India should immediately examine the trend of trade in India with various other important countries and the United Kingdom and investigate the possibility of entering into such bilateral trade treaties with them whenever and wherever possible to bring about the expansion of export trade of India in those markets and submit such treaty or treaties for the approval of the Assembly."

[3] *Reports* of the Federation of Indian Chambers of Commerce and Industry, 1936-39; also C. N. Vakil and M. C. Munshi, *Industrial Policy of India*, pp. 69 ff.; and D. R. Gadgil, articles on "The Ottawa Agreement," in the *Servant of India*, January-March 1936.

[4] As noted in Chapter XVI, Section i, in 1919, an export duty of 15 per cent was levied on hides and skins with a rebate of 10 per cent on exports to Empire countries. This was a solitary measure of preference though, apart from the voluntary preferences granted to the

definitely pronounced against Imperial Preference principally on the following grounds: (*i*) that about three-fourths of the total import trade of India came from the British Empire, while the remaining one-fourth was of a kind which "the British Empire either does not produce or is not in a favourable position to supply;" (*ii*) that "as India is a debtor country, it follows, therefore, that we are at present dependent on our trade with foreign countries for the discharge of our net international obligations;" (*iii*) that all past experience indicated "that in the decision of any fiscal question concerning this country, powerful sections of the community at home will continue to demand that their interests and not those of India alone should be allowed consideration" and that "we might be forced to shape our policy not in accordance with our own needs, but according to the interests and demands of other constituents of the Empire;" and lastly (*iv*) that the Government would lose a large portion of the revenue it received from British and Colonial imports being left to make up the deficit by enhanced duties on foreign goods. For these reasons, the Government of India under Lord Curzon stated their conclusions as under: "Firstly, that without any such system, India already enjoys a large, probably an exceptionally large, measure of the advantages of the free exchange of imports and exports. Secondly, that if the matter is regarded exclusively from an economic standpoint, India has something, but not perhaps very much, to offer to the Empire; that she has very little to gain in return; and that she has a great deal to lose or to risk. Thirdly, that in a financial aspect, the danger to India of reprisals by foreign nations, even if eventually unsuccessful, is so serious and their results would be so disastrous, that we should not be justified in embarking on any new policy of the kind unless assured of benefits greater and more certain than any which have, so far, presented themselves to our mind."[5]

United Kingdom in respect of steel in 1927 (and 1934), and cotton textiles in 1930 (and 1934).

[5] Despatch of the Government of India to the Secretary of State, dated the 22nd October 1903, published in 1904 along with a Minute on the subject by Sir E. F. Law.

In spite of the recommendations of the Colonial Conference of 1902, which elicited the above opinion of the Government of India, however, only sporadic action was taken by some of the Dominions, while neither the United Kingdom nor India nor any of the Crown Colonies found it feasible to arrange preferences. The last War, however, gave a great fillip to the idea of pooling the resources of the Empire and turning it into one well-knit economic unit and as a consequence of the deliberations of the Imperial War Conference of 1917, the United Kingdom reversed its policy and granted substantial preferences on a unilateral basis to the members of the Empire. This led to a re-examination of the question in India, where the Fiscal Commission re-surveyed the pros and cons in their Report. That Commission (majority) expressed itself in favour of Imperial Preference subject to certain conditions, *viz.*, that no preference should be granted on any article without the approval of the Indian Legislature, that no preference given should in any way diminish the protection required by Indian industries and that the preference should not involve any appreciable economic loss to India on the balance.[6] By the time the Commission sat, the foreign trade of India had undergone a further change in that, instead of three-fourths of imports coming from the British Empire, the proportion went down to two-thirds, while only about one-third of India's exports were sent to the rest of the Empire. The Commission further found that Indian exports were not of a kind that would benefit materially from any scheme of preferences. As they rightly put it, "the economic advantage derived from a preference tends to be more important in the case of manufactured goods than in the case of raw materials" because "manufactures nearly always meet with keen competition in foreign markets and therefore preference on manufactures is nearly always of value."[7] There was no doubt in their mind that raw materials stood very much less in need of preferences than did manufactures and that the gain to them by preference

[6] *Report*, p. 122.

[7] *Ibid.*, pp. 110-1.

was likely to be much smaller. The only preferences of interest to India were, in their view, those on tea, tobacco and coffee, and even in their case the advantage was not so substantial.[8] On the other hand, the Commission confessed that India could not grant extensive preferences to the United Kingdom without serious loss to herself, because the nature of British imports was clearly competitive so far as Indian products were concerned. Curiously, however, the Commission denied that preferences were likely to be opposed to the policy of protection or that there was any possibility of retaliation on the part of India's customers. In their opinion, the real economic loss from preference was confined only to the increased burden which would be imposed upon the consumer in consequence of raising the general rate of duty. In spite of these overwhelming arguments against Imperial Preference, however, the Commission could still find itself supporting it as a practical policy and also advising Indians to regard it as a voluntary gift and not as part of a bargain. The Commission waxed eloquent on the virtues of Imperialism, and on "strengthening the ties which bind together the scattered units of the Empire." The minority of the Fiscal Commission, on the other hand, were quite clear as to the implications of a system of preferences granted by a dependent, as distinct from a self-governing, unit of the Empire. They properly drew attention to the fact that "the principle of Imperial Preference implies the uncontrolled power of initiating, granting, varying and withdrawing preference from time to time consistently with each country's interest and on lines which are not injurious to itself," and they stated their conclusion that "India cannot accept the principle of Imperial Preference until she has attained responsible government and is able to regulate her fiscal policy by the vote of a wholly elected legislature."[9]

[8] Preferences to tea or coffee or jute, however, are of little *national* value to India. As Professor Vakil piquantly says, "it is no use obtaining concessions for a foreign industry established in India in return for concessions in our market to the goods of another country." Vakil and Munshi, *op. cit.*, 69-70.

[9] *Report*, pp. 166-7.

However, it must be noted that the representatives of the Government of India at the Imperial Conferences of 1923, 1926 and 1930 expressed themselves against participating in any general scheme of preference for the Empire as a whole, though they did not object to partial and limited preferences. This policy was put into operation during the period 1923-34 which was marked by two schemata of "preferences within protection," one in the case of iron and steel under the Steel Industry Protection Acts of 1927 and 1934, and another in the case of cotton textiles under the Cotton Industry (Protection) Acts of 1930 and 1934.[10] It was, however, the change in British fiscal policy after 1931 which provided the chief motive force for the Government of India's subsequent reorientation of policy, rather than any desire to rehabilitate India's declining foreign trade. The largest single customer of India, *viz.*, the United Kingdom faced her with a *fait accompli*, giving her a straight choice between being included in the system of inter-imperial preferences and being left to herself at a time of "declining trade increasing restrictions and shrinking markets."[11] As the Indian Delegation to the Imperial Economic Conference at Ottawa said,[12] "it was no longer a question of what India stood to gain (by joining a general scheme of Imperial preference), but of what she stood to lose" by standing outside it.

The United Kingdom-India (Ottawa) Agreement, 1932, provided for the grant of a preference of 10 per cent on a number of commodities (on motor vehicles 7½ per cent) imported into India from the United Kingdom, and a similar preference of 10 per cent generally on many articles imported from India into the United Kingdom, with free entry of a few Indian commodities on which a direct preference was not feasible.

[10] *Cf.* Chapter II, Section iv, and Chapter IV, Sections iii and vii, also see *infra*.

[11] Madan, *op. cit.*, p. 12. Mr. Madan further points out that "Altogether the fear of an imminent loss of Empire markets practically drove the Government of India to improvise a scheme of preferences," which were "framed largely as a measure of insurance against apprehended losses." *Ibid.*, p. 13.

[12] *Report of the Indian Delegation*, p. 8.

The Agreement was to continue in force until terminated after six months' notice of denunciation on either side. The Agreement was ratified by the Legislative Assembly in November 1932, provisionally for a period of three years and the preferences came into operation from January 1, 1933. In the United Kingdom also the preferences commenced from the same date, while the free entry already granted under the Import Duties Act was continued. As stated already in March 1936, the Legislative Assembly passed a resolution recommending the termination of the Agreement. Accordingly, notice of termination was given by the Government in May 1936, but the Agreement was subsequently again renewed subject to termination at three months' notice by either side, unless it was replaced by a new agreement. After this, for three years, negotiations went on between the British and Indian delegations and finally a new Agreement was signed between the British and Indian Governments and placed before the Legislative Assembly for ratification. The Assembly rejected it but the Council of State approved, though it must be recorded that in both the houses the elected representatives were overwhelmingly opposed to the Agreement. It may be mentioned here that a Supplementary Indo-British Trade Agreement was concluded on January 9, 1935, further restricting the Government of India's sphere of action regarding fiscal policy. This was also rejected by the Assembly but remained on the statute book till 31st March 1939, when it was not renewed, as arrangements in respect of cotton and iron and steel were incorporated in the new Agreement, while the general provisions were found to be of little use to British interests.

II

Imperial Preference—Theoretical Aspects

In assessing the benefit or loss due to any scheme of Imperial Preference or bilateralism, we have to be clear in our minds as to what we mean exactly by "gain" or "loss." If we go through the controversial literature on the Ottawa Agreements, whether in India or abroad, it will be found

that these terms are used generally in a very superficial or loose sense. The most common interpretation put on the two terms has been in terms of actual values of exports and imports. A rise in exports is generally regarded as "gain," while a fall would be a loss; on the other hand, imports are regarded either as "loss" or as the cost of obtaining facilities for exports. Figures have been produced galore to prove that this or that country has enriched itself by making "gains" this way or has been the poorer as a result of "losses" being incurred in the opposite way. Yet, this must appear nothing more than Mercantilist rubbish from the standpoint of fundamental analysis. If exports increase, this may sometimes indicate a net gain to a nation no doubt, but this will depend upon what is happening in other directions. If as a result of artificial preferences granted in a particular country, the export trade merely gets diverted,[13] there is hardly any "gain" in the transaction. Not only this, but if in the case of an economic system that is getting more and more self-sufficient and autarkic, exports actually diminish, it will be hard to prove that the country is really a loser. Further, if the total foreign trade of a country expands, but the internal trade contracts either in consequence or independently, the country can hardly be said to be better-off. Only in so far as any *net* increase in exports brings about any *net* increase in employment or total production of the country, can we say that the country is a gainer. Finally, the character of the foreign trade and of internal production are also of great significance to the wealth and well-being of the people.

In the case of an industrially backward country (like India, *e.g.*,) which is aiming at industrialisation with a view to increased productive capacity and economic balance or diversification, an expansion of foreign trade artificially brought about, and implying increased imports of manu-

[13] Cf. Madan, *op. cit.*, p. 30: "A broad distinction may be made between primarily trade-diverting and trade-enlarging factors (according as they tend more to change the direction of trade than to increase its aggregate volume or *vice versa*). The British protection and Empire preferences tended largely to divert trade from Empire-foreign to inter-imperial channels."

factures and increased exports of raw materials, is a sure indication of deterioration. There can be no "gain" of any kind in this sort of increase in figures of trade. Similarly, if a country's exhaustible mineral resources (like manganese, *e.g.*,) are exploited in the process of expanding exports, such a "gain" too would be more or less imaginary. The character of a country's foreign trade and its economic structure are of immense importance. From the point of view of future development, for example, India's economy is one showing a *perfect balance* between agricultural and mineral resources, between the available supply of labour and the internal market. There are few countries in the world possessing such a plenitude of resources. At present the economy is very largely agricultural and only partially industrial; consequently, if we enter into a preferential arrangement whereby we agree to import manufactures and to export raw materials and food-stuffs only, such an arrangement is bound to stultify all our past progress. This fact was clearly stated by the Government of India itself till 1932, and many of our economists, in no uncertain terms. The other countries of the Empire, including the United Kingdom, have lacunae in their material equipment, which make a system of mutual preferences a more tenable proposition for them. But, in the case of India, there is hardly much scope for any *static* theory of "industrial co-operation;"[14] and the industrial policy which India is pursuing or will have to pursue in the future is diametrically opposed to any compromise in this connection.

The fact that India is a "debtor" country is a matter of great significance to her trade policy. We have already noted that this was the major ground on which Lord Curzon's Government turned down the proposal of Imperial Preference in 1903. It still remains true that India has to produce an annual favourable balance of trade in order to meet her net external obligations, including the home charges, dividends on foreign investments in India etc. These obligations, which are sometimes termed the "drain," amount to between Rs. 60 and 70 crores, all told. India has tradi-

[14] As distinct from a *dynamic* one, as explained below.

tionally always met this demand on her with a favourable balance of trade; but excepting recent years, she has had always an adverse balance arising from her transactions with the "creditor" country, *viz.*, the United Kingdom, and this adverse balance has had to be met out of her favourable balance with non-Empire countries. It was *triangular* trade which, thus, enabled India to meet her external obligations. With the advent of Imperial Preference and Economic Nationalism everywhere, India has lost her favourable balance with her non-Empire customers, in particular with the autarkic economies of Europe. She has had, therefore, to fall back upon the Empire countries in search of the favourable balance. She has only partially succeeded in securing it though, and while under the auspices of the Empire, efforts have been made to encourage inter-imperial trade through preferences, it must be admitted that the Government of India has made little or no endeavour to develop trade with the non-Empire countries (excepting Japan). To a large extent, also, the falling favourable balance has been brought about by the ravages of the Depression, on the one hand, and increasing utilisation of India's resources internally.

The question that arises, however, is, what is the theoretical importance of the balance of payments in deciding matters pertaining to foreign trade policy? There is no doubt firstly, that a favourable balance of trade is a monetary convenience of great value in the management of the exchanges, failing which either a fall in the exchange must result or, if this is sought to be avoided, increasing indebtedness or exhaustion of capital resources like gold stocks, or both, must ensue. Other things being equal (*i.e.*, assuming there is no internal accretion of wealth), such a situation must be considered serious. If, however, say by means of a nation-wide system of planning, the economic system is kept at a high level of productivity and capital wealth is extended internally, the nation can well afford to have a small balance or even a negative balance. Only in the absence of any evidence, however, that internal capital wealth was increasing at a rapid rate, deterioration of the foreign balance would be a matter of anxiety. Nevertheless, we must not forget that a balance of trade has two sides, imports and exports, and therefore

to improve the balance a country can adopt one of two methods, *viz.*, either to reduce imports, or to increase exports, or both. In the special case of India, moreover, as the creditor position is concentrated in one single country, the problem is much less complicated than it would otherwise have been. If Imperial Preference or bilateralism is found to be opposed to the fundamental interests of India, the balance of trade will have to be controlled *by reduction of imports* rather than by a vain effort in increasing exports in foreign markets. It is one of the beauties of protectionism that it subserves this end particularly well, even while it makes a *positive* contribution to the development of industrial wealth in the other direction. Finally, it has to be remembered that owing to possibilities of internal development of industries, our demand for foreign manufactures is elastic, while the character of our exports suggests that the demand for them, though not very inelastic, is not ordinarily such as can be easily given up: every manufacturing country in the world today is on the look-out for cheap raw material supplies. There is no reason to suppose that the position will be different in future. For these reasons, neither Imperial Preference nor bilateralism is so urgently necessary as a permanent orientation of policy. Only so long as India's fiscal policy is controlled by extra-national interests, all that we can do is to kick against the pricks and hope for the best. Within the four corners of the present system, however, bilateralism is not going to be any improvement over Imperial Preference, so far as the trade balance is concerned, for the simple reason that bilateralism with the non-Empire countries must ultimately lead to equalisation of imports and exports. If the foregoing analysis is correct, the only conclusion as regards a permanent policy is that both Imperial Preference and bilateralism alike are to be rejected.

The juxta-position of export and import figures is a crude, *prima facie* approach to the problem of "gain" or "loss" from preferential or bilateral pacts; consideration of the balance of payments is a shade better as a criterion of success or failure; but by far the best test would be the examination of the total national income. Unfortunately, even more than in the case of foreign trade, the factors which affect the size of the

national income are so numerous and diversified that an exact correlation between a fiscal measure and changes in the national income would be hard to devise. But the consideration of national income does provide a qualitative, if not a quantitative, guidance in this connection. Thus, if we once admit that national income and welfare, as a whole, are likely to be maximised if the wealth-producing capacity is developed through industrialisation—and we have already noticed that, in the case of India, even more than an increase in employment, an increase in efficiency is likely to be immensely valuable,—fiscal policy has inevitably to support that aim and no other. If, in so far as fiscal policy can help in this connection, protection is found to be the right policy, there is no question of deviating from that principle in favour of any other in regard to regulation of foreign trade, whatever be the results achieved as regards the crude figures for exports or the balance of payments, because such results are not of *fundamental* importance.

Is there, then, no possibility of "industrial co-operation" between India and the United Kingdom or the other Empire countries under any circumstances whatsoever? It is obvious that the United Kingdom has successfully utilised her negative trade balance in forcing the countries of the Empire to agree to preferences, and non-Empire countries to bilateral pacts. But if the idea is to exploit these advantages to perpetuate inefficiency of production, such a policy is bound to defeat itself in the end. The Balfour Committee's *Surveys* brought to light many of the inherent and acquired defects of the British industries. In recent years, efforts have been made in some of the major industries like iron and steel, cotton textiles etc., to adapt technique of production to the new methods and thus to raise standards of efficiency; but there is reason to believe that there is still a large margin of orthodoxy and inefficiency to be liquidated in the United Kingdom. *To expect India to subsidise this inefficiency and that too at the expense of her own industrial development is so selfish a procedure that only political power can make it feasible.* However, if the United Kingdom is prepared to adopt a "dynamic" concept of industrial co-operation, that would be something not beyond the power of India. The future industrial

development of India,—whether it is brought about on individualistic or totalitarian lines, whether the agency is uncontrolled capitalism or some sort of planning,—will involve an increasing volume of imports of machinery, including electrical appliances of all kinds, hydro-electric power plant, scientific apparatus and instruments, specialised plants as also many modern amenities of life, like wireless and broadcasting equipment, telephone installations, cinematographic equipment, aeroplanes and aeronautical apparatus etc. Even where modern industries, like the automobile or aeronautical industry, are started, highly technical parts will have to be imported from abroad for some time. There will be *real* industrial co-operation from the standpoint of India, if the United Kingdom interests herself in these lines of goods to an increasing extent and actively aids the industrial *regeneration* of India, which alone is likely to maintain her hold on the Indian market.[15] After some time, when India herself begins to produce these higher types of goods, the United Kingdom must again readapt herself to the changing times. This is not a hard ration for a progressive country, and seeing that this transformation is a matter of generations, there is plenty of scope for it in future. But it is clear that so far as India is concerned only such a conception of a dynamic industrial co-operation is likely to be acceptable to her. Any other conception will be like a strait-jacket.

An important theoretical aspect which decides against the desirability of granting preferences is that regarding the burden on the consumer. Preference is to be given in the

[15] Cf. the following passage from the *Report* for 1935-36 of the British Trade Commissioner in India, Sir T. Ainscough: "The friendly co-operation of British manufacturing organisation, with their technical experience and knowledge of world-wide conditions, and Indian industrialists, with their knowledge of local conditions, should be most valuable ......I am convinced that we must rely more and more in future on the supply of capital products and technical equipment to India, thus aiding her own development with our experience and technique." Quoted Madan, *op.cit.*, pp. 148-9. Unfortunately, the demands for Imperial Preference and industrial co-operation come at present from the British cotton and steel industries, precisely the industries which have little to offer by way of co-operation.

form of differential duties, whether by raising the general rate or by lowering the preferential rate or by a combination of the two methods. Whatever be the mode of effecting the preference, however, it is certain that the consumer must bear the burden of the duties, which will be equivalent, per unit of the commodity, to the new market price *minus* the market price which would have resulted if there were no duties at all. Assuming that the preferred article is costlier, presumably the differential duties might seek to put it on par with the non-preferred article by granting preference to the extent of the difference in the import prices of the two. Or, it may be the case that the preferred article is as cheap as or eventually becomes cheaper than the non-preferred article. All these various possibilities will have to be considered. On this question, the Fiscal Commission quoted the opinion of the United States Tariff Commission as follows:[16]

> As regards economic effect, reductions of duty under the concessional (*i.e.*, preferential) method have different consequences under varying conditions of supply as regards the article affected. Where a reduction of duty affects only a fraction of the imports of that article, and the major portion of that article is still left subject to the main or non-concessional duty, the result is not only a loss of revenue to the Treasury, because of the lower rates of duty but absence of any gain to consumers. The reduction of duty redounds only to the advantage of the foreign producer......If, on the other hand, virtually the entire imported supply of a given article is admitted at the lowered concessional rates, the effect is that of a general reduction of duty......mainly to the advantage of the domestic consumer.

Prima facie, it might appear that if the domestic consumer does not pay a higher duty on the preferred article, he has not to bear much burden, and that the preference is so much relief to him. However, on closer thought this will be seen to be fallacious. It is not so much indeed a question of the proportion of imports corresponding to the preferred product which decide this burden, as the United States Tariff Commission stated. Of course, if only a small fraction of preferred imports come in, that means that the ex-duty price of the preferred product *plus* the lower duty is not less than the ex-duty

[16] *Report of the Fiscal Commission*, p. 106.

price of the non-preferred product *plus* the higher duty, and, therefore, as the final price is determined by the price of the non-preferred product rather than that of the preferred product, the whole of the higher duty has to be borne by the consumer. Let us consider two different situations: Situation A, in which the competition lies only between two foreign producers, one preferred, the other non-preferred; and Situation B, in which the competition is triangular, *viz.*, between the two foreign producers (one preferred, the other non-preferred) and an internal producer. Secondly, let us also consider two sets of conditions, one in which the preferred producer is inefficient and badly in need of preferences, and the other in which he is not inefficient or, perhaps, ceases to be inefficient after receiving preferences because of the opportunities he gets of developing himself.

Now, under Situation A, there is no question of any protective duties in view of the absence of the internal producer (and for this purpose even revenue duties may be regarded as having a protective effect if there is taking place any internal production). Hence we can assume that it is a simple question of adjusting the import duties so as to allow for the preference. The final price is likely to be determined, in the short run in any case, and in the long run definitely if the preferred producer is inefficient and his ex-duty price is higher,—by the higher rate of duty. Otherwise, differential rates would have been unnecessary. The consumer, therefore, pays a uniformly high price both on the preferred as well as non-preferred product. Thus, the burden on the consumer is equal to the higher rate per unit imported, which is also equal to the extra price which he has to pay over and above what he woul have had to pay (*viz.*, the ex-duty price of the preferred product) had there been no duty at all. Thus, if total imports are equivalent to A+B, A being preferred and B non-preferred and if the rates are x and y respectively, y being the higher of the two rates, then,

Total burden on consumer ... ... $=(A+B)\times y$.

Total revenue obtained by the Government $=Ax+By$.

Loss of revenue=Consumers' burden frittered away on the foreign producer ... ... $=Ay-Ax$.

The total revenue collected actually by the Government is returned to the public in the form of public expenditure. But $(Ay-Ax)$ or $A\,(y-x)$, becomes a present to the preferred producer, because he is able to sell his product in quantity A at a price governed by the higher rate (y) but has only to pay the lower rate (x) of duty himself. If, however, the ex-duty price of the preferred article falls below the ex-duty price of the non-preferred one and the latter ceases to be imported, the consumer's burden will be determined as follows: If p_1 is the price of the preferred product, while p_2 that of the non-preferred one, and the final prices of the two are p_1+x and p_2+y, respectively, and the difference between them is r, then,

The market price$=p_1+x=p_2+y-r$.

Total consumers' burden$=A_1(y-r)=A_1(x+p_1-p_2)$, where A_1 are the total imports.

Assuming $A_1=A+B$, total Government revenue$=x(A+B)$.

Loss of Government revenue$=Ay+By-Ax-Bx$.
$$\text{or}=(A+B)\times(y-x);$$

While consumers' burden frittered away$=(A+B)(y-x-r)$.

(It will be seen that in this case consumers' burden frittered away is less than the loss of the Government revenue.)

It will be clear from the above that where the preferred producer is able to reduce his costs as a result of expansion brought about by the preference, total consumers' burden and total Government revenue differ as also the loss of revenue and the consumers' burden frittered away on the preferred producer.[17] But it is certain that in so far as reduction of costs has taken some time, the preferential advantage of the consumers' burden made available to the preferred producer is of the nature of a subsidy granted to him.

As regards Situation B, *i.e.*, where there is a third party, *viz.*, a protected internal producer interested in the whole affair, it is equally clear that the internal producer is robbed

[17] This is a limiting case of the otherwise quite correct suggestion of Madan, *op.cit.*, p. 129, that "consumers' burden" (frittered away) and "loss of revenue" are "alternative modes of describing identical facts," in this connection. In this case, loss of revenue is greater.

of the advantage of the consumers' burden $Ay—Ax$ (which should assist him, but) which is *frittered away on the foreign preferred producer*. This is the case described as "preference within protection," a case which is definitely adverse to the interests of the country granting preference in every way.

III

The Indo-British Trade Agreement, 1932

The principal Agreements to be considered in this Chapter are the Indo-British Trade (Ottawa) Agreement of 1932, the Supplementary Indo-British Trade Agreement of 1935, the Indo-British Trade Agreement of 1939, and the Supplementary (to Ottawa) Iron and Steel Agreement of 1932.

Indo-British Trade Agreement, 1932, as stated already, provided for the grant of a preference of 10 per cent on the commodities mentioned therein (except motor vehicles on which 7½ per cent was granted) imported from the United Kingdom into India. It also granted a 10 per cent preference on several commodities imported from India into Britain and free entry to a small group of commodities. On the basis of existence or non-existence of competition from Empire and non-Empire sources, the preferred and fovoured exports from India can be grouped as follows:[18] Group I, consisting of commodities for which there is little competition from within or outside the Empire. This group contains jute manufactures, tanned hides and skins, coir yarn and mats and matting, teakwood, castor seed and raw goatskins. Group II, with little competition from within the Empire but strong competition from outside containing rice, linseed, paraffin wax, woollen carpets and rugs, bran and pollard and rice meal and dust, and oilseed cake and meal. Group III, with strong competition from within the Empire but little from outside, containing

[18] Cf. Madan, *op. cit.*, p. 54. Professor Vakil classifies the commodities differently thus: commodities in which India is the chief supplier to U.K., those in which the Dominions compete in the British market, those which have not much scope of expansion in the U.K. market, and those which receive special treatment. (*The Ottawa Trade Agreement*, p. 17.)

the three commodities, tea, ground-nuts and pig lead. Group IV, with strong competition from within as well as outside the Empire, containing tobacco raw and manufactured, coffee, spices, pulses and beans, vegetable oils, and bones and manures. Group V, miscellaneous, containing wheat, barley, cotton yarn and manufactures, magnesite, granite sets and kerbs, other hardwoods, sandalwood oil, and miscellaneous food grains. And Group VI, though not preferred, treated as a special group containing commodities admitted free of duty from whatever source and including shellac, seedlac, raw jute, myrobalans, broken rice, mica slabs and splittings, and Indian hemp.

On the other hand, the imports of preferred articles may be classified under three Groups according to the method of preference. Group I consisted of arms and ammunitions, spirits, perfumes, smokers' requisites, motor cars, buses and parts thereof, confectionery, electric bulbs, accumulators, musical instruments, wireless apparatus and raw cinema films. The standard rate of duty on these goods except motor vehicles was 50 per cent. This was reduced to 40 per cent on British goods (the rate on motor vehicles was reduced from 37½ to 30 per cent similarly). Group II consisted of non-essential vegetable oils, oil-cloth and floor-cloth, packing, paints and painters' materials, toilet soap, haberdashery, apparel, and woollen yarn and manufactures,—the standard rate on which was raised from 25 per cent to 35 per cent for non-British goods only. And Group III consisted of a large number of articles such as asbestos manufactures, boots and shoes, building and engineering materials, chemicals, cutlery (not plated), drugs and medicines, earthenware and porcelain, furniture and cabinet-ware, instruments and apparatus (excepting those in Group II), leather, machinery and millwork, metals and ores, paper and pasteboard, stationery, wool yarns and manufactures, toilet requisites and umbrellas and umbrella fittings. For this group preference was granted by raising the standard duty of 25 per cent to 30 per cent for non-British goods and by lowering it to 20 per cent on British goods.

The Agreement remained in operation for practical purposes between 1932 and 1939, and although it was termi-

nated by the Assembly in 1936, it was renewed in the same year. It has been a subject of great controversy all these years and while the Government and its supporters have tried to prove that the Agreement has redounded to the benefit of India's foreign trade,[19] commercial bodies and a majority of Indian economists have pronounced against it.[20] It appears that the supporters of the Government view have mostly proved that the scheme of preferences adumbrated by the Ottawa Agreement brought about an increase of exports to Britain at a time when the external markets for Indian exports were contracting. Now so far as the effects of the preferences are concerned, nobody can ever doubt that one natural effect would at any rate be to increase exports to the United Kingdom and also to increase the imports at the same time into India. But this is too *simpliste.* What we are interested in knowing is not that particular exports and imports have increased,—for preferences must imply such an increase—but in knowing what the situation would have been like if there were no Agreement at all. There is no means to discuss the position in this way. Secondly, when figures of exports or imports are cited to prove the "gains" and "losses" of India or another country, one hesitates to accept them as proofs in a valid argument. The whole procedure is too superficial. Even supposing, however, that figures of exports and imports could assist us in estimating the gains and losses, in the narrower sense in which Governments and business men understand these terms the further difficulty arises in the case of the years in question, which formed the background of the operation of the Agree-

[19] Reports on the Working of Ottawa Agreement, for 1933-4 and 1934-5; Legislative Assembly Debates, 1932-1936; *Reports* of the Indian Trade Commissioner at London 1932-3 to 1936-7; Press Notes by the Director of Public Information, *India and Ottawa and India's Foreign Trade policy*, 1936.

[20] C. N. Vakil and M. C. Munshi, *op. cit.*, D. R. Gadgil, *Imperial Preference for India* and articles, *loc. cit*; D. Ghosh, *Revision of Ottawa*; N. R. Sarkar, *Indo-British Trade Relations*; Federation of Indian Chambers *Note on Ottawa Scheme of Preferences*, 1936. But *cf.* Madan, *op. cit.*, and B. N. Adarkar, Chapter on "The Ottawa Agreement" in *Economic Problems of Modern India*, ed. R. K. Mukerjee.

ment, that they were years of great economic upheaval, in which forces of cataclysmic importance shook the economic system of the world from end to end. The preferential arrangement entered into by two countries in respect of a few commodities was a comparatively insignificant affair in the midst of the medley of those forces. The efforts made by the protagonists as well as antagonists of the Ottawa Agreement in disentangling the precise effects of the Agreement from a labyrinth of cross-currents of effects, though intellectually attractive, must be admitted to be of doubtful statistical value. Where a few crores this way or that could easily be added or lost due to those world-wide factors, it is futile to correlate a small fiscal event like Ottawa with the dispersions of the figures.

Let us briefly recount the abnormal factors which have been at work during this period:

(*a*) The world depression 1929-33, and the following recovery 1934-7 caused the greatest decline in international trade and also later a substantial revival respectively; but the effects of these may be assumed, to be world-wide in operation and common to most countries. The large imports which took place into the United Kingdom after 1934 must be ascribed to this one factor to a large extent.

(*b*) The growth of economic nationalism, and ideals of autarky in Europe which accompanied the Depression and continued unabated even after it, was responsible for reduction as well as diversion of the currents of trade. In the case of India, the diversion of trade from the Continental countries to the United Kingdom was no doubt largely influenced by this factor.

(*c*) The instability of foreign exchanges and the formation of currency areas, such as the gold *bloc*, the sterling area and so on, were again trade-diverting factors of no mean importance. So far as the Indian scheme of preferences was concerned, the fact that India formed a unit of the sterling area and that her trade with Continental countries was hindered by the fluctuating exchanges on the one hand and by exchange restrictions and clearing agreements on the other, perforce diverted her trade into Empire channels.

In spite of these formidable difficulties efforts have been

made to calculate the precise effects of Ottawa on India's trade and ascribe credit or blame to the policy of preferences. The method adopted has been that of eliminating the common factors, but where there are so many complicating factors, their elimination is perhaps only theoretically possible. In the opinion of the present writer, these efforts have only succeeded in collecting together facts and figures regarding the actual trends of trade, but so far as a final judgment on the "gains" or "losses" due to Ottawa, is concerned, they fail to make any deliverance. Below in a set of four tables are reproduced the figures for India's exports and imports during a major part of the period under consideration. It will be seen that they give no guidance to assess the exact part played by Ottawa in the changes that have taken place nor to suggest what the situation would have been like if the Ottawa Agreement had not been signed.

TABLE I

Exports of Preferred Commodities from India

(In Rs. Crores)

To	1931-2	1932-3	1933-4	1934-5	1935-6	1936-7
United Kingdom ...	32.3	28.7	34.8	35.4	35.8	43.6
Other Countries ...	67.0	56.1	53.7	49.8	54.8	65.9
TOTAL ...	99.3	84.8	88.5	85.2	90.6	109.5
United Kingdom per cent	33	34	39	42	40	40
Indices						
United Kingdom ...	100	89	108	110	111	135
Other Countries ...	100	84	80	74	83	98
TOTAL ...	100	85	89	86	91	110

TABLE II

Exports of Non-Preferred Articles from India

(In Rs. Crores)

To	1931-2	1932-3	1933-4	1934-5	1935-6	1936-7
United Kingdom ...	10.6	8.1	12.4	12.5	14.7	20.1
Other Countries ...	46.0	39.3	46.4	53.9	55.2	67.3
TOTAL ...	56.6	47.4	58.8	66.4	69.9	87.4
United Kingdom per cent	18	17	21	19	21	23
Indices						
United Kingdom ...	100	76	117	118	139	190
Other Countries ...	100	85	99	117	120	146
TOTAL ...	100	84	102	117	123	154

TABLE III

Imports of Preferred Articles into India

(In Rs. Crores)

From	1931-2	1932-3	1933-4	1934-5	1935-6
United Kingdom	12.6	13.3	14.9	16.9	17.3
Other Countries	18.2	20.1	17.6	21.5	21.7
TOTAL ...	30.8	33.4	32.5	38.4	39.0
United Kingdom per cent ...	41	40	46	44	44
Indices					
United Kingdom	100	105	118	134	137
Other Countries	100	110	97	118	130
TOTAL ...	100	108	106	125	126

TABLE IV

Imports of Non-Preferred Articles into India

(In Rs. Crores)

From	1931-2	1932-3	1933-4	1934-5	1935-6
United Kingdom	32.2	35.5	32.7	36.9	34.9
Other Countries	63.4	63.7	50.2	57.0	60.5
TOTAL ...	95.6	99.2	82.9	93.9	95.4
United Kingdom per cent ...	34	36	39	39	37
Indices					
United Kingdom	100	110	102	114	108
Other Countries	100	101	79	90	95
TOTAL ...	100	104	87	98	94

What are the main tendencies of trade as revealed by the figures in the foregoing four tables? As regards exports, the following conclusions can be formed: (*i*) There is no doubt that exports of non-preferred articles increased by a far greater percentage than those of preferred articles both in the case of the United Kingdom as well as of other countries. (*ii*) Secondly, there has been a relatively greater increase of exports to the United Kingdom both in the case of preferred as well as non-preferred articles. These two conclusions may be stated in another way thus: between 1931-2 and 1936-7, the four categories have fared as follows: non-preferred exports to the United Kingdom (+90 per cent); non-preferred exports to other countries (+46 per cent); preferred exports to the United Kingdom (+35 per cent); and preferred exports to other countries (—2 per cent).

These conclusions were utilised by both the supporters as well as opponents of the Agreement to support their own respective theses. The opponents said that the greater expansion of the export trade in non-preferred articles both in and outside the United Kingdom clearly showed that the Ottawa Agreement was not the cause of the (smaller) expansion in the preferred exports to the United Kingdom,

but that both had been due to the general recovery of world trade. They further contended that it was a mere case of diversion of trade from other countries to the United Kingdom, and that there was no net benefit accruing to India as a result of the Agreement. As against this the advocates of the Agreement argued that the imports of preferred commodities in the United Kingdom from all sources fell by about 22 percent[21] between 1931 and 1934 and that, if in such a "contracting market" India had been able to register progress in the form of increased exports of preferred commodities, the credit must go to the preferences. Secondly, the greater increase in the non-preferred exports from India was due to the character of the commodities concerned, for, they consisted mostly of raw materials which had always a readier market in Europe, like cotton, jute, wool and hemp, and non-ferous metals; while the preferred commodities were heavily weighted by food and fodder and by domestic necessaries, like rice and other cereals and pulses, spices, tobacco, coffee, oilcake, rice meal and oil seeds, and by manufactured articles like coir, jute and cotton manufactures, woollen carpets and rugs, tanned hides and paraffin wax—all commodities of which the share of world trade had declined relatively to raw materials in the period. If in "a contracting market" the preferred exports had been able to make some headway this was, in the opinion of the supporters, to be ascribed to the Agreement only. The Agreement, in brief, had a high "insurance" value from India's standpoint, in a period of great difficulty.

In view of the theoretical aspects of the question thrashed out in the foregoing pages, there may not appear to be much point in making the figures of exports and imports yield their

[21] This percentage decline in U.K.'s imports applies to commodities for which the U.K. had given preferences in her Ottawa Agreements with the Empire as a whole and not to those commodities on which she had granted preferences to India. Naturally, the former group is much larger than the latter. The 1934-35 Report of the Government on the *Working of the Scheme of Preferences*, p. 4, gives figures for the former and not the latter. The decline of 22 per cent is based on those figures. For our purpose only the latter group is relevant. Correct figures are given in Table V, *infra*.

secret and shed light on the controversial issue of gain or loss. *Prima facie*, increase of exports to the United Kingdom would be valuable (in the sense of increased employment etc.) if there was no corresponding contraction of exports elsewhere or if there was not a mere diversion of trade from internal channels into external ones. As regards the latter, we can safely assume that there was no diversion from internal to external channels. As regards the former, there was undoubtedly a very considerable diversion of India's exports from non-Empire countries to the United Kingdom. Thus, increase of exports to the United Kingdom had no positive value in *adding* to our total export trade. But according to the advocates of Ottawa it had a negative value in that it prevented our exports from falling further, or in that it insured against further "losses." Let us, therefore, examine the point that India's exports of preferred goods to the United Kingdom market increased in spite of a contracting market. In the following table are given the total imports of the United Kingdom of commodities on which preferences were given to *India* (apart from other Empire countries).

TABLE V

United Kingdom Imports of Articles on which Preferences were granted to India

(In millions of £)

From	1931	1932	1933	1934	1935	1936
India	26.9	24.4	27.2	28.8	28.5	35.8
Other Empire Countries	32.7	41.5	39.8	37.3	38.0	52.1
All Empire Countries ...	59.6	65.9	67.0	66.1	66.5	87.9
Foreign Countries ...	63.0	40.2	36.5	45.4	47.7	43.4
TOTAL ...	122.6	105.1	103.5	111.5	114.2	131.3
Percentages						
India	21.9	23.2	26.3	25.6	24.9	27.3
Other Empire Countries	26.9	39.4	38.5	33.4	33.3	39.8
All Empire Countries ...	48.8	62.6	64.8	59.0	58.2	67.1
Foreign Countries ...	52.2	37.4	35.2	41.0	41.8	32.9
TOTAL ...	100	100	100	100	100	100

From the above figures it will appear that India's share increased from £26.9*m.* to £28.8*m.* between 1931 and 1934, *i.e.*, by 7.6 per cent. At the same time, during the period, there was a decline in total imports of the preferred articles those (in which India was interested) from £122.6*m.* to £111.5 *m.* (*i.e.*, a decline of 9 per cent). Ordinarily, therefore, the probability was that India's trade also should decline by 9 per cent, but it actually increased by 7.6 per cent. The net increase, thus was 16.6 per cent. This then is the measure of the increase of preferred exports in a "contracting market." Between 1931 and 1935, this net increase was 13.6 per cent, while between 1931 and 1936, it was of the order of 32.6 per cent. Although these results might lend support to the argument of the supporters of Ottawa, it has to be pointed out that the figures do not clearly prove that the preferences were responsible for the increases. If we turn to the figures of United Kingdom's imports of articles on which no preferences were granted to India, we shall see that between the years 1931 and 1934, the results were still better.

TABLE VI

Imports into the United Kingdom of Articles not enjoying preference

(In million £)

From	1931	1932	1933	1934
India	8.14	6.46	8.43	11.37
Imports from other Countries ...	228.09	207.51	210.63	232.53
TOTAL ...	236.23	213.97	219.06	243.90

During the period 1931-4, India's imports into the United Kingdom of non-preferred articles increased from £8.14*m.* to £11.37*m.*, registering a rise of 39.7 per cent, while total imports rose from £236.23*m.* to £243.90*m.*, showing an increase of 3.3 per cent. Ordinarily, India's imports into the United Kingdom should have increased by 3.3 per cent, but they actually increased by 39.7 per cent, *i.e.*, the net increase was 36.4 per cent. This is far more than the net percentage increase in the preferred group (*viz.*, 16.6 per

cent). Thus, we come back to the conclusion stated earlier that there were other overwhelming forces which were responsible for the diversion of India's trade from other countries into the United Kingdom and that their action was reinforced by the trade recovery which took place in the United Kingdom after 1931.[22] The part played by Ottawa in the export trade with the United Kingdom was, on the whole, small and negligible. Even admitting, however, that Ottawa did contribute something to the insurance of India's export trade, the question that remains to be answered is whether the advantages that were bestowed upon the United Kingdom, in regard to her imports to India, were not too excessive a premium for that insurance. The figures for the total absolute increases in exports of the two countries to each other do not prove anything, in view of the foregoing discussion. The question at issue is, what are the mutual advantages exchanged by the two countries? The official Report on the working of Ottawa for 1934-5 gives figures for the total "advantage" secured by Indian exports in the United Kingdom in 1934-5, as against that secured by the United Kingdom exports in the Indian market. The method followed is to multiply the quantity of exports of each commodity and multiply it by the preference granted per unit. Calculations made on this basis are summarised on page 546.

[22] Cf. Madan, *op. cit.*, p. 34, where he says: "It is thus clear that the tendency of India's export trade to rely more and more on the United Kingdom market did not *originate* with the coming into operation of the Ottawa preferences. The trend of exports after Ottawa does not appear to have been characterised by any striking new development."

TABLE VII

Estimate of Mutual "Advantages"

(In Rs. lakhs)

Preferred Imports from India into United Kingdom			*Preferred imports from United Kingdom into India*		
Commodities	Value	Advantage	Commodities	Value	Advantage
Rice cleaned ...	87.1	168.7	Chemicals ...	163.5	16.4
Tea	1814.6	320.6	Instruments etc.	247.1	24.7
Tobacco raw ...	34.2	123.5	Rubber manu.	139.7	13.9
Jute manu. ...	159.7	31.9	Hardware ...	96.3	9.6
Other articles ...	1575.4	171.8	Other articles	1043.5	102.9
TOTAL ...	36,71.0	8,16.5	TOTAL ...	16,90.1	1,67.5
			Iron and Steel	1,41.8	15.0
			Cotton Manu.	13,06.9	2,81.0
			GRAND TOTAL	30,38.0	4,63.5

The official method of calculating advantages would appear to show that India gained more than what she gave by way of preferences. However, the "advantage" in most cases is illusory. Thus, on tobacco the rate of preference was 2*s.* per lb., while about 9.3 million lbs., were imported into the United Kingdom in 1934-5, valued at Rs. 34.2 lakhs, but the so-called "advantage" seems to be nearly four times as large at Rs. 123.5 lakhs. This means that the rate of preference is pitched so high that it has little relevance to the price of the commodity. Calculation of advantages by this crude method therefore cannot give us a correct picture. The correct measure of advantage can be had only if we knew the exact difference that the preference has made to the actual price of the commodity *i.e.*, the consumer's burden in the United Kingdom made available to the Indian producer. Thus regarded, the problem presents itself in a different light altogether.

The principal commodities to gain by the British preferences were rice, tea, tobacco and jute manufactures. The remaining 36 articles on which preferences were granted did not register any substantial increase. On the other hand, in the case of the United Kingdom imports into India, the total number of commodities was 162, and the gain was evenly distributed. In addition, there were the differential duties on iron and steel and cotton manufactures. On British imports there was a general average preference of 10 per cent on the 162 commodities; this accounts for the fact that the advantage is nearly one-tenth of the total value. But the real advantage to British imports lay in the consumer's burden which was sacrificed and whose value to India was far greater in that it was to give away *at the expense of Indian industries*. On the other hand, the preferences granted to Indian exports to the United Kingdom did not involve any competition with internal products, actual or potential, but were actually helpful in that the imports were complementary, as raw materials, to British production. From this point of view, it is undeniable that the United Kingdom itself insured exports to India to an even more extent than India did. Secondly, the commodities which benefited most were rice, tea, tobacco unmanufactured and jute manufactures and that tea was the biggest gainer. Now, the advantage on rice went to Burma (now separated) and not India; that on tea and jute manufactures to the British commercial interests entrenched in India; while the exports of Virginia tobacco from the Guntur District were at the expense of the indigenous infant industry. Thus, in regard to more than half of the total exports, it was almost a commercial pact between British interests in the United Kingdom and British interests in India, and the other half was not worth having. The most damaging argument against the Ottawa Agreement is thus the character of the trade on both sides which was sought to be canalised by means of preferences. The fact that concessions were made available in the non-self-governing British colonies like Ceylon, Federated Malay States, the Straits Settlements, etc., has little significance, since the total preferred exports to all these taken together were of the order of only Rs. 1.5 crores, and the increase

between 1932 and 1934 was only Rs. 34 lakhs. Nor does the mere fact that exports from India to the United Kingdom increased more than those from the United Kingdom to India prove anything; for, even supposing that figures for exports are a correct guide to the "gain" or "loss," we cannot say whether they would not have increased in the absence of the Agreement. Thus, we are forced to fall back upon the first principles or *a priori* aspects of the question.

The verdict of *a priori*, as we have seen in the foregoing pages, is against the Ottawa Agreement as a whole. The Agreement was hastily drafted and India was given only Hobson's choice in the matter; although the Agreement was unanimously thrown out by the people's representatives in the Legislature and rejected by the commercial community, it was forced upon an unwilling country. Even accepting that it was necessary to insure our export trade, the very fact that the Agreement and its offshoots have been signed under duress, without any idea of reciprocity or voluntariness about them, vitiates their contractual value. Even accepting that an agreement with the imperial Power was a political necessity, it could have been based upon a real sense of mutual understanding and co-operation. On *a priori* grounds, there can be no doubt that there is little room for any industrial partnership between India and the United Kingdom, except on the lines suggested already. If the United Kingdom had levied adverse tariffs against Indian exports of raw materials, and if India had the freedom to retaliate, United Kingdom would have suffered far more than India. Let it be realised that, in spite of a growing economic nationalism in the world, not only are there still large areas left providing markets for Indian exports, but even the autarkic nations will be only too glad to have cheap and plentiful supplies of raw materials for their industrial requirements. This is all a matter of commercial policy, but if we would insist on twisting the course of our foreign trade and directing it into Empire channels, then we must continue to lose the other important markets, like the United States, Japan, Russia and some of the European countries.

IV

Supplementary Indo-British Trade Agreement, 1935

Under the Ottawa Agreements between the United Kingdom and the Dominions, the Dominion Governments of Canada, Australia and New Zealand bound themselves to frame their policy of protection in such a manner as to ensure an orderly economic development of the Empire on a co-operative basis, to revise their existing tariffs with this end in view, and to grant full rights of audience to United Kingdom producers before their respective Tariff Boards.[23] However, there was a great uproar against these general and sweeping provisions of the Agreements in the three Dominions and within a few years the provisions were dropped. In the case of the Indian Agreement, these provisions did not figure in 1932, probably because, in view of the practical control of His Majesty's Government over India's fiscal policy, they were not considered necessary. But on 9th January 1935, a Supplementary Agreement was signed between His Majesty's Government and the Government of India adumbrating these principles. The terms of the Agreement are summarised below:

(*i*) That while protection to Indian industry against imports from all sources might be necessary in the interest and well-being of India, conditions within industries in India, in the United Kingdom and in foreign countries, might require a higher level of protection against foreign than against United Kingdom imports. (Preferential duties).

(*ii*) That protection to only such Indian industries would be granted as after due enquiry by the Tariff Board had established claims to it in accordance with the principles of Discriminating Protection laid down by the Indian Fiscal Commission. (Confirmation of India's fiscal policy).

(*iii*) That protection given to any industry should not exceed what was necessary to equate the prices of imported goods to the fair selling prices of similar goods produced in India, and that, wherever possible, in harmony with the above provisions, lower rates of duty should be

[23] Summaries of Proceedings and Copies of Trade Agreements (Ottawa), 1932, Cmd. 4147, Articles 10-14 of the Canadian Agreement, Articles 9-12 of the Australian Agreement, and Articles 7-9 of the New Zealand Agreement.

imposed on the goods of United Kingdom origin. (Preference within Protection).

(*iv*) That when the question of the grant of substantive protection to an industry is referred to the Tariff Board, the Government of India would afford full opportunity to any industry concerned in the United Kingdom to state its case and answer cases presented by other interested parties. (Full rights of audience before the Tariff Board).

(*v*) That, in the event of any radical change in the conditions affecting protected industries during the currency of the period of protection, the Government of India would, on the request of His Majesty's Government, or of their own motion, cause an enquiry to be made as to the appropriateness of existing duties. (Review of existing protection).

(*vi*) That His Majesty's Government would give consideration to the steps that might be taken to develop the import from India of raw or semi-manufactured materials used in the manufacture of articles which are subject to differential import duties in India. In this connection, they particularly undertook to popularise the use of Indian cotton and to continue the duty-free entry of Indian pig-iron, so long as the differential duties on British steel continued on their existing margins in India. (Industrial co-operation).

This Agreement was thrown out by the Legislative Assembly but was certified and remained in force till the 31st March 1939, when it was allowed to lapse, because some of its provisions (dealing with cotton and iron and steel and industrial co-operation) were incorporated in the new Agreement and others were found to be unnecessary and of little practical use. It is to be noted, however, that in accordance with the provisions of the Agreement, British industrial interests were permitted to present their cases before the Tariff Board in some of its enquiries (*e.g.*, the Murray Tariff Board on cotton in 1936). In the Assembly debate, Sir Joseph Bhore informed the House that the Agreement did "nothing more than crystallise their past practice and the principles which had been accepted either directly or indirectly by the Legislature." He further stated that Indians had also a statutory right under the British Import Duties Act of putting their case before the Board of Trade in the United Kingdom. This show of a right of reciprocity, which the British know full well will never be availed of by any Indian industry, is now a familiar feature of our fiscal law, and it has also, as we shall see later in Chapter XXI, formed part of the commercial provisions of the Government of India Act of 1935. However, it is a gross mis-

statement to say that the Supplementary Agreement of 1935 was merely a crystallisation of earlier practice. The preferences, which were granted to the United Kingdom under Cotton Industry Protection Act of 1930 and the Steel Industry Act of 1927, were carried through the Legislature under duress and the Assembly was plainly told that if the preferences were not granted, there would be no protection at all. These preferences were obtained by the United Kingdom on a "something for nothing" basis, and to "crystallise" a right to preferences out of such precedents and frame them outside the regular Agreement was an interesting procedure. Further, full rights of audience before the Tariff Board granted to British interests (notwithstanding the reciprocity arrangement), and the promise to review existing protection at the instance of His Majesty's Government or on the Government of India's own initiative were unquestionably new commitments, substantially whittling down the implications of the Fiscal Autonomy Convention without granting anything tangible in return. Such commitments might have been tolerable in the case of self-governing Dominions, for they could put their own interpretation upon them or prevent them from harming their own interests, but in the case of India with her peculiar political structure, they were unthinkable.

V

Preference within Protection

In Chapter II, Section V, we have already reviewed the new system of differential duties adopted by the Government in connection with the steel protection. The differential duties were first introduced in 1927 on the recommendation of the Tariff Board of 1926, who gave the ostensible reasons that if lower duties were not imposed on British steel, there would result disturbances in the market due to large variations in the prices and imports of continental steel and that such duties would safeguard the consumers of British steel who mainly consisted of public works departments, port trusts and factories. This system of differential duties was extended by the Supplementary (to Ottawa) Agreement in

regard to iron and steel, of 1932. The Indian Delegation to Ottawa considered that under the Import Duties Act, it became feasible to import Indian semi-finished steel and pig iron into the United Kingdom and, for this reason, they were of the view that the differential rates of the 1927 Act "could not...become the subject of bargaining between ourselves and the British Delegation."[24] They, therefore, recommended a scheme of "industrial co-operation" between Britain and India by which pig iron and sheet bars would be sent to England to be converted into galvanised sheet, which would be subject to preferential rates in India. This arrangement was to remain in force till the next Tariff Board enquiry. The Tariff Board of 1933, as we saw, pronounced against this Agreement, but quite inconsistently went out of their way and, with a view to "maintain as far as is now possible the principle of reciprocity underlying the Ottawa Agreement," provided for preferences within their scheme of protection. They followed the procedure of equalising the fair selling prices of Tata's with the respective import prices of Continental and British steel and proposed preferences on structurals (Rs. 43 per ton), bars (Rs. 29 per ton), plates (Rs. 25 per ton), black sheets (Rs. 22 per ton), and galvanised sheets (Rs. 30 per ton). In doing this, the Board sought to give "a definite advantage" to the British manufacturer as against the Continental producer, "consistently with the interests of the Indian industry."

What was the value of these preferences to India? The exports of pig iron from India to the United Kingdom increased from 69,000 tons in 1931-2 to 242,000 tons in 1937-8, while total exports to all countries (including Japan) increased from 351,000 tons to 629,000 tons during the same period; but it is to be noted that not till 1935-6 was any improvement visible. Till 1937 March, there was a 33 per cent duty on non-Empire pig iron; but from that month the differential advantage available to Indian pig iron was dropped and the commodity was placed on the free list. As regards imports of steel from Britain, preferences have been available to

[24] *Report of the Indian Delegation*, p. 12.

Britain right since 1927. There was a definite increase from 48 per cent to 57 per cent in the proportion of steel derived from the United Kingdom, or in absolute figures from 406,000 tons to 685,000 tons during the first year of the preferences. But later on the proportion of British imports to total imports of steel products into India fell and by 1937-8, it stood at 45 per cent. This was due to intense continental competition and must be primarily ascribed to the price factor. In 1932, another dose of preference was granted by the Supplementary Agreement, and the United Kingdom share showed a temporary spurt to 50½ per cent in the following year. It is quite clear that the preferences granted were of greater value to the British manufacturers than to the Indian: In the first place, Indian pig iron needs little protection or preference to support it, for owing to its quality and cheapness it is in demand everywhere, while British steel products could not have sold in India but for the preferences. Secondly, the preferences were granted at much sacrifice to the indigenous steel industry. In this connection, it is interesting to note the "shift", as Dr. Madan calls it,[25] that has taken place in the terms of the steel agreement:

> In the first instance, at the time of the Ottawa Conference, the free entry of Indian pig iron as well as a substantial outlet for Indian sheet bar there was secured in return for preference on galvanised sheet in India. Then, on the occasion of the Steel Industry Protection Act of 1934, the need for an outlet for Indian sheet bar having ceased to press, the free entry into the United Kingdom of Indian pig iron only was exchanged for preference on United Kingdom galvanised sheet imports into India. The Supplementary Indo-British Agreement went a step farther. It secured the free entry of Indian pig iron alone by the guarantee not only of preference on galvanised sheet, but also of the existing margin of difference in duties in favour of the United Kingdom in the case of all other iron and steel products. With effect from 3 March 1937, imports of pig iron into the United Kingdom from *all* sources became free of duty: the differential advantage of free entry of Indian pig iron thereby ceased to exist.

If we add to this *reductio ad absurdum* the further fact that under the new Indo-British Agreement of 1939, a threat is held out of an imposition of a customs duty on imports of

[25] *Op. cit.*, p. 226.

Indian pig iron into the United Kingdom, if the preferential duties on British steel are adversely touched, the narrative will be complete.

The cotton industry presents another case of preference within protection. Under the Cotton Textile Industry (Protection) Act, 1930, as stated already in Chapter IV, Section iii, differential protective duties were levied on non-British piecegoods. The 1932 Tariff Board, however, stated its view that protection was necessary as much against the United Kingdom as against Japan and other countries. However, two important events took place during 1933-4 1933, which again cleared the way for preferences. The first was the Indo-Japanese Agreement of 1934; the second the Bombay-Lancashire Pact (otherwise known as the Mody-Lees Pact) of 1933. The former consisted of a Convention and a Protocol and was signed on behalf of India by Sir John Simon (the Secretary of State for Foreign Affairs) and Sir Samuel Hoare (the Secretary of State for India) and by Mr. Matsudira (the Japanese Ambassador) on behalf of Japan.[26] The Convention stated the underlying principles and the Protocol the actual arrangement. The Convention contained the following provisions: (1) Article 2 granted mutual most-favoured-nation treatment; (2) Article 3 reserved to the Government of India the right to levy anti-exchange-dumping duties and to impose and modify duties on Japanese goods even otherwise, while a similar reciprocal right was conceded to Japan; (3) Article 4 provided for mutual negotiation to get duties altered, while Article 6 stated that the Convention would remain in force till 31st March 1937, or until six months after due notice on either side. The Protocol laid down the following terms: (*i*) The customs duties on Japanese cotton goods were not to exceed 50 per cent *ad valorem* or 5¼ annas per lb., whichever was higher, for plain greys, and in the case of other piecegoods, 50 per cent. (*ii*) A system of quotas for the imports of Japanese cloth

[26] The fact that the Treaty was signed in London by His Majesty's Government through its two Secretaries implies that India has no constitutional power to negotiate or enter into treaties independently with foreign states.

into India in exchange for the export of cotton to Japan from India was provided, under which Japan was allowed to export to India in any cotton-goods year (1 April to 31 March) 325 million yards of cloth, provided she purchased one million cotton bales from India in any cotton year (1 January to 31 December). Apart from this basic quota, the maximum quantity of Japanese imports was fixed at 400 million yards a year; and the excess over the basic quota was related to cotton at $1\frac{1}{2}$ million yards for every 10,000 bales of cotton. The allotment of cotton piecegoods imported from Japan was further classified under four heads: Plain greys, 45 per cent; bordered greys, 13 per cent; bleached (white) goods, 8 per cent; coloured (printed, dyed or woven) goods, 34 per cent.

The Indo-Japanese Agreement 1934 (and its successor of 1937) was an experiment in limited bilateralism within the structure of protection. How far was it advantageous to India? There was no doubt some expansion in the cotton exports to Japan, but it is doubtful whether it could be wholly ascribed to the Agreement. Japan's cotton industry, which specialises in the cheeper lines of cotton goods, is always in need of short-staple cotton such as India can supply: with the revival of world business after 1934, there was bound to be a large measure of expansion in our cotton exports to Japan. On the other hand, Japan's gains were substantial. Under the most-favoured treatment, Japan was able to dump large quantities of cheap miscellaneous goods of various kinds, such as cycles, glassware, boots and shoes, woollen goods etc., which adversely affected the nascent industries of India. Secondly, although the quota system was observed so far as cotton piecegoods were concerned, there were a number of loopholes which were availed of by Japan; fents, artificial silk and made-up cotton goods, such as shirts, pyjamas, skirts etc., were not covered by the Agreement and, consequently, Japan was able to increase her imports of these without violating the letter of the Agreement. These matters were brought to the notice of the Japanese representatives, when the question of renewing the Agreement arose. However, the new Protocol, which was signed in April 1937, retained the main features of the

old, and where modifications were introduced the reasons were constitutional and technical rather than substantive. Thus, the separation of Burma from the 1st April 1937 necessitated the reduction of the basic quota of imports of Japanese piecegoods from 325 million yards to 283 million yards against the purchase of one million cotton bales, while the maximum limit was reduced to 358 million yards. Keen disappointment was felt that the Government of India was not able to close up some of the loopholes mentioned above. It was felt that the Government could have used their strong bargaining position for getting Japan to agree to restriction of some of her imports of other goods on a reciprocal basis. Japan's industry needs Indian cotton, and although she can turn elesewhere for this raw material (to China, Egypt or the United States, in particular), India has a better vantage-ground for bargaining. Although the Indian textile industry cannot absorb the entire cotton crop in India and in the absence of an agreement with Japan cotton-growers would have been injured, there is no doubt that a more comprehensive bilateral pact with Japan was quite feasible. Further, the existing Protocol has failed in its purpose in that during the past three years there has taken place a progressive diminution in Japan's off-take of Indian raw cotton, while there has been a continuous increase in Japan's imports of textile as well as non-textile products. Owing to the Chinese war, things have drifted favourably for India in recent months, but after the cessation of hostilities, there is bound to be renewed activity on the part of Japan in these directions. The next Protocol[27] must, therefore, aim at a complete and comprehensive correlation between Indian exports to Japan and Japanese imports to India on a bilateral basis: if a thing is worth doing, it is worth doing thoroughly and well.[28]

[27] The 1937 Protocol terminated on the 31st March 1940, but in spite of protracted negotiations no agreement could be arrived at with Japan. Also the supervening circumstance of war obliged the Government to abandon negotiations *sine die*. Pending a new Protocol shipments are being regulated on a monthly basis at present.

[28] This conclusion is not contrary to the general view stated above that bilateralism does not help India much, as a comprehensive pro-

The Bombay-Lancashire Agreement, which was signed at the close of the year 1933, was another instance of a pact relating to cotton textiles wherein British imports of cotton textiles were sought to be related to Indian exports of cotton to Britain; but whereas in the case of Japan there was a definite quota arrangement based on a sliding scale, here there was only a promise of a bigger off-take of cotton by Lancashire in exchange for substantial facilities for importing cotton goods into India. Under the Agreement, the following principles were accepted: (*a*) that there should be differential duties in favour of Britain on imports of cotton yarn and piecegoods; (*b*) that the import duty on the U. K. imports of piecegoods should not exceed 5 per cent *ad valorem* or 1¼ annas per lb.; (*c*) that there should be duties of 30 per cent or 2½ annas per square yard for artificial silk, and 30 per cent or 2 annas per sq. yard on mixtures of cotton and artificial silk; (*d*) that in so far as the Empire and other overseas markets were concerned, any advantages which might be arranged for British goods should be extended to Indian goods; and (*e*) that, in regard to raw cotton exports from India to Britain, the British side should take effective action to popularise and promote the use of Indian cotton in Lancashire.

The Indian Tariff (Textile Protection) Amendment Act, 1934, incorporated the tariff provisions of the Indo-Japanese Agreement and of the Mody-Lees Pact. We have already considered the results of the arrangements made with Japan. In regard to the preferential treatment accorded to the United Kingdom within the frame-work of protection, it may be stated that while India incurred a loss of revenue, i.e., a frittering-away of consumer's burden, to the extent of about a crore of rupees, per annum, the gain to the cotton export trade was hardly commensurate. The Lancashire industry largely depends upon supplies of long-staple cotton from

gramme. In the special case of Japan, as fiscal policy stands at present, bilateralism cannot do any harm seeing that the exports to and imports from Japan almost balance: between 1937 and 1939, the figures for exports and imports were respectively Rs. 25 crores, Rs. 14·5 crores, Rs. 13·5 crores; and Rs. 23 crores, Rs. 15·6 crores and Rs. 17·9 crores.

Egypt and the United States; consequently, there has never been much encouragement to Indian cotton in that market. No doubt, the Lancashire Indian Cotton Committee engaged itself in some propaganda in favour of Indian cotton and thus tried to implement the Pact in the letter at least. But it is impossible to say how far the percentage increase in exports of cotton from India to the United Kingdom and in India's share of United Kingdom imports of cotton could be ascribed to this factor. Between 1933-4 and 1937-8, exports of raw cotton from India to the world fell from 512,000 tons to 488,000 tons, and those to the United Kingdom from 63,000 tons rose to 71,000 tons, while the percentage share of the United Kingdom increased from 12 per cent to 14 per cent; similarly, the share of India in the United Kingdom's imports of cotton between 1934 and 1937 increased from 12 per cent to 14 per cent. However, there were at least two other important tendencies at work: In the first place, as was noted above, there has been a continuous diversion of trade from the Continent to the United Kingdom and in fact the percentage increase, both in regard to the United Kingdom's share in India's exports of cotton and India's share of the United Kingdom's imports of cotton, had been in evidence since 1929-30 (when both the shares stood at 7 per cent). Secondly, as the Lancashire Committee itself admitted, it was impossible to say to what extent the increase could "be ascribed to parties obtaining throughout the season and to what extent to the activities of the Committee."[29]

The Mody-Lees Pact was due to expire on the 31st December 1935, and in pursuance of an undertaking given by the Government, a Special Tariff Board[30] was appointed in September 1935 to investigate the question of protection to cotton textile industry against imports from the United Kingdom. The Board recommended, *inter alia*, (*i*) that the

[29] *Report of the Lancashire Indian Cotton Committee*, 1934, p. 7, quoted Madan, *op. cit.*

[30] The personnel of the Board was as follows: Sir Alexander Murray (President), and Dewan Bahadur (now Sir) A. Ramaswamy Madaliar and Mr. F. I. Rahimtoola (Members).

duty on British plain grey goods be reduced from 25 per cent *ad valorem* or $4\frac{3}{8}$ annas per lbs. whichever was higher to 20 per cent *ad valorem* or $3\frac{1}{2}$ annas per lb. whichever was higher; (*ii*) that the duty on bordered grey, bleached and coloured piece-goods (other than prints) be reduced to 20 per cent *ad valorem*; and (*iii*) that the duty on cotton yarn should remain the same. Simultaneously with the publication of the Report of the Murray Tariff Board, the Government effected the recommended reductions of duty by a notification and faced the Legislature with a *fait accompli*. The Government justified this action by quoting earlier precedents, the emergency duties against Japan's imports in 1932-33, the power for which was available according to them under the Indian Tariff Act of 1894; but there was no doubt that the procedure adopted was derogatory from the standpoint of the much-vaunted Fiscal Autonomy.

VI

Indo-British Trade Agreement, 1939

After protracted and sometimes very controversial negotiations lasting nearly three years, a new trade agreement was entered into between the United Kingdom and India on the 20th March 1939, to replace the earlier one, which was denounced by the Legislature but continued by certification as noted already. The new Agreement was incorporated in the provisions of the Indian Tariff (Third Amendment) Act, 1939. The Bill for this Act was rejected by an overwhelming majority in the lower House, but was certified by the Governor-General, thus again proving, if proof was needed, that there was neither freedom nor reciprocity underlying the Agreement.

The main provisions of the new Agreement are as follows: (*i*) On the side of the United Kingdom, various margins of preference are maintained for several scheduled imports of Indian goods into the United Kingdom; (*ii*) free entry for Indian goods, which were admitted free, is provided for, implying preference, so long as foreign imports of such goods are subject to duty, but there is no guarantee

of the continuation of such preference; (*iii*) for a few other commodities, free entry is permitted from all sources. On the other hand, from the Indian side, (*i*) there is provision for preferences ranging from 7½ to 10 per cent on a number of articles imported from the United Kingdom (the list being reduced to 20 articles only); (*ii*) another new and important feature of the Agreement is the reciprocal concession embodied in Article 10 of the Agreement which links the exports of Indian cotton on a sliding-scale basis with imports of British cotton piecegoods into India. Finally, mutual preferences are also arranged, on the basis of most-favoured-nation treatment, between India and British Colonies, Protectorates, and Mandated Territories. The Ottawa Agreement did not touch the protected cotton industry, as preferences were secured within the scheme of protection. The new Agreement fetters the discretion of the Government of India and the Tariff Board by making the structure of duties on cotton piecegoods imported from the United Kingdom a part of the preferential scheme. Thus, now it is more a case of protection within preference than one of preference within protection.

The Agreement provides that the cotton fabrics assessable under the customs tariff shall be subject to the basic rates of 17½ per cent on printed goods, 15 per cent or 2 annas 7½ pies per lb., whichever is higher, on grey goods and 15 per cent on all others. If, however, in any cotton piecegoods year (1 April to 31 March) the United Kingdom imports do not exceed 350 million yards, the duties charged after the end of that year and until the end of any cotton piecegoods year in which such imports exceed 425 million yards, are to be reduced still further by 2½ per cent with a proportionate reduction in the specific duty on grey goods. On the other hand, if in any cotton piecegoods year, the United Kingdom imports exceed 500 million yards, the rates of duty in the following year may be increased above the basic rates to such extent as may be deemed necessary for the purpose of restricting imports of such goods during the year to the "maximum yardage" figure of the previous cotton piecegoods year. Apart from this sliding-scale arrangement regarding the duties and imports of British piecegoods, there is another

linking arrangement between cotton exports from India to the United Kingdom and cotton piecegoods imports from the United Kingdom into India. In determining the rates of duty charged on the United Kingdom piecegoods imports, imports of Indian cotton into the United Kingdom will be considered in the following manner. If cotton imports fall short of 5 lakhs of bales for the cotton year ending 31st December 1939, 5½ lakhs for the cotton year ending 31st December 1940 and 6 lakhs for any subsequent cotton year, the total imports of cotton piecegoods from the United Kingdom must be deemed to have increased at the rate of 25 million yards for every 50,000 bales or less of deficiency. If, however, the deficiency exceeds 1 lakh of bales in 1939 or 1½ lakhs in any subsequent year, the duties may be increased; on the other hand, if the off-take of cotton by the United Kingdom exceeds 7½ lakhs bales the duty on printed goods will be reduced to the level of the duty on other piecegoods. Thus there is set up a system of penalties and rewards, in the shape of increased or lowered duties on imports of cotton piecegoods, for a deficiency or excess (respectively) in the consumption of Indian cotton in the United Kingdom.[31] There is no doubt that the "cotton article" (Article No. 10) imposes an unequal exchange of concessions on India. The minimum import figure of 350 million yards is pitched up too high, in view of the fact that the imports in 1937-8 (the last complete year before the Agreement) stood at 267 million yards only. On the other hand, the standard figures for cotton imports, from which to calculate deficiency or excess, are kept sufficiently low; for, if the United Kingdom takes 500,000 bales (i.e., 1¼ times her offtake of 400,000 bales during 1937-8), she may import up to 500 million yards (i.e., nearly double her imports of cotton piecegoods in 1937-8). at basic rates. This "heads I win, tails you lose" kind of preferential arrangement comes on top of the imposition of the enhanced duty on imports of long-staple cotton into

[31] It must be noted that in view of the stipulations, as during 1939-40 the British cotton piecegoods imports did not exceed 350 million yards, the duties were reduced all round by 2½ per cent for 1940-1; but owing to the outbreak of war, imports did not show much increase.

India, to which reference has already been made in Chapter IV, Section viii.[32] It will be seen from figures quoted in the footnote below that in spite of a series of preferential measures since 1933-4, the imports of British cotton piecegoods did not register any substantial increase, while without much support Indian raw cotton exports showed considerable development. It is clear that the sliding-scale arrangement artificially weighted in favour of the United Kingdom was a further dose of preference given to the waning British imports of cotton piecegoods.

As regards the other commodities, it must be admitted as a general conclusion that preferences to the United Kingdom imports have been confined to heads of imports in regard to which the keenest competition is met by the British exporters in the Indian market. On the other hand, jute and tea, the principal beneficiaries, would have been able to hold their own even without the Agreement, the former because of its monopolist position and the latter because of the Export Regulation Scheme, which has been more useful for maintaining India's export position; while it is obvious that the free entry for commodities like raw jute, lac, myrobalans, is of little practical value, because India holds a virtual monopoly in these products, and that the conditional free entry on some other commodities suffers from lack of any guarantee as regards its continuation. Moreover, as Dr. Madan points out, "a large number of Indian commodities which receive preference in the United Kingdom meet with severe competition on equal terms from within the Empire," while, on the other hand, the United Kingdom enjoys an "exclusive preference" as regards commodities on which India has granted preferences to her.[33]

[32] Between 1933-4 and 1937-8, imports of cotton piecegoods from the U. K. and the U. K's offtake of Indian cotton were as under:

	1933-4	1934-5	1935-6	1936-7	1937-8
British imports of cotton piecegoods (million yds.)	384	515	403	307	267
British offtake of Indian cotton (thousand bales).	342	347	456	610	395

[33] *Op. cit.*, p. 242.

CHAPTER XIX

THE BURDEN OF PROTECTION

I

Introductory

One of the grounds on which the Indian system of protection has been indicted by critics is that it has imposed an iniquitous burden upon the poorer sections of the consuming public and has aggravated the regressive character of the system of public finance. In fact, this is supposed to be the strongest plank of the anti-protectionist argument, and, as in the parallel case of the management of the rupee ratio, mischievous attempts have been made by interested parties to set consumers against producers, agriculture against industry, and town against country. I shall endeavour to show in the present chapter, that, so far as Indian conditions go, such antitheses are generally false and at best contain only a modicum of truth. It must, of course, be admitted that protection, as a rule, does impose a burden upon the consumers in any country, no protectionist has ever denied this. In fact, such burden is the price that a community has to pay in order to acquire the "wealth-producing capacity", that must eventually compensate, and more than fully compensate, for the sacrifice undergone.

Thus conceived, the consumer's burden is "the defect of the merit of protection", and a necessary item on the debit side of the fiscal ledger. However, there are several countervailing considerations to be taken into account in this connection. In the first place, we have to investigate the credit items on the other side of the ledger, before condemning the system as a whole. If there is either proof or valid presumption that the gain has been greater than the loss even, from the consumer's standpoint, if not from the national

standpoint, this must make us hesitate before passing the final judgment. Secondly, even if the consumers of a particular commodity that is protected have borne a burden, if there has taken place an increase in employment,—and this possibility is ever present in a country like India which is full of habitually under-employed and unemployed workmen,—such increase must bring about a growth of *total* consumption in the community as a whole, though a small class may be temporarily injured. Thirdly, in so far as industrialisation and mechanisation, and all that they imply, bring about a general rise in efficiency, the national dividend must *immediately* react to such a favourable circumstance, and, therefore, must improve total consumption and economic welfare. The possibility of this happening is particularly great in a backward, agricultural country like India. This would suggest that it is not a mere question of replacing one sort of production by another by the transfer of usefully employed resources from one channel to another, but one of creating new and additional wealth by utilising "unutilised resources" and by exploiting the enormous margin of efficiency available. Fourthly, we have to investigate the character of the goods subjected to protective duties in determining whether the burden falls upon the rich or the poor. If the character of the goods is such that the richer class of consumers is mainly called upon to contribute to the national reconstruction, it is indubitable that *pro tanto* the burden of protection will be lightened. Fifthly, if the duties are not protective but *safeguarding* in their nature and necessitated by the various types of conscious or unconscious dumping practised by the foreigner, it is clear that they cannot be said to inflict any burden upon the consumer at all. In such cases, the duties more or less *nullify the undue advantage* secured by the consumers at the expense of the indigenous producers. In Chapter XVII, Section i, we have seen that the Indian system of protection, to a large extent, partakes of the character of a safeguarding system, though it is impossible to draw a clear line of demarcation in this connection. To the extent, therefore, that the system is a safeguarding one, clearly its burden is illusory. Finally, if owing to overproduction or any other reason the internal price of the protected commodity has a little relation to the

external price or the import duty, the mere fact that there is an import duty on the tariff schedule cannot prove that there is also a consumer's burden. This means that, in the final analysis, it is a comparison of the prices, external and internal pre-protection and post-protection, which must decide the issue. No attempt has so far been made along these lines to evaluate the extent of consumer's burden imposed by the protective or other import duties in India.

The critics merely rest their case on the doctrinaire position that import duties on consumption goods must necessarily be bad, because, being an indirect form of taxation, their burden falls regressively upon the poor. Lurid pictures have been drawn of the groaning misery of the poor agriculturist who, it is alleged, ultimately bears the burden of protection as the Great Tortoise bears that of the Earth in the Hindu mythology. Now, it is a shibboleth to say that all indirect taxation falls upon the poor. In the first instance, the term "indirect taxation" is itself not very scientific, but if we avoid the difficulty of an exact dichotomy between direct and indirect taxation by assuming that indirect taxation consists of taxation on expenditure in general, i.e., on consumption, it must be pointed out that the protective and other import duties fall largely upon a class of commodities which are not the objects of general consumption but are consumed largely by a section of the public only. Except in the case of one or two commodities, the articles subject to tariff are consumed mostly by the town-dwellers, because India's import schedule itself is composed of articles catering for the wants of the educated upper and middle classes, and where it is composed of capital goods, such capital goods also ultimately cater for the wants of the same classes to a greater extent than for those of the poorer classes living in rural India. Secondly, the proposition sometimes let loose by critics that the Indian system of protection raises the costs of agricultural and export industries very much exaggerates the situation, because the exact extent of incidence of protection on them is only theoretically imagined and not factually ascertained.

II

The Incidence of Indian Taxation

The problem of the distribution of the tax burden in India has never been adequately treated from a correct, statistical viewpoint. In the absence of precise information regarding the income classes and their respective budgets, mere speculation is inevitable. The Taxation Enquiry Committee[1] (1924-5) divided the people into four classes *viz.*, labouring classes, landholders, businessmen, and professional classes, for the purpose of allocating the incidence of taxation. They came to the general conclusion that the burden was not particularly heavy or oppressive, though its distribution was somewhat uneven, and that, in particular, big landlords and village traders escaped with less taxation. The conclusions were not quite satisfactory, inasmuch as they left the question of the degree of progressiveness or regressiveness still undecided. The next important enquiry was that of Professor K. T. Shah[2] who worked out the distribution of the tax burden with reference to the year 1923-4. He divided the tax-paying public into two strata, the rich and the poor, the former consisting of 4 per cent of the total population and deriving a total income of Rs. 600 crores, and the latter consisting of the remaining 96 per cent and deriving a total income of Rs. 1,200 crores. On this basis he allocated the burden as under:

[1] *Report*, paras. 478 ff.

[2] Shah and Khambatta, *Wealth and Taxable Capacity*, pp. 289-91, and Shah, *Sixty Years of Indian Finance*, pp. 373-4.

TABLE I

Professor Shah's Analysis of Tax Burden

Source of Revenue	Amount of tax burden in Rs. crores	
	The Rich Strata	The Poor Strata
Customs	20	21
Land revenue and Irrigation ...	20½	21½
Income Tax	20	..
Excise	..	20
Salt	1¼	7½
Forests and Registration	2	5
Stamps	6½	6½
Railways	33	60
Post and Telegraphs	5	5½
Municipal Taxes	3	10
District Board Taxes	..	10
TOTAL ...	111¼	167

The above figures were taken by Professor Shah as proof that "economically the weaker and less able section bears pecuniarily the largest proportion of the tax-burdens of India". The figures, however, do not show that the tax burden is regressively distributed, as is suggested by Professor Shah and others. In the first place, the inclusion of railways and post offices, which are commercial concerns largely run on a *quid pro quo* basis, exaggerates the burden on the poor. Secondly, even as the figures stand, a burden of Rs. 111¼ crores on 4 per cent of the population earning Rs. 600 crores means a higher percentage per one per cent of the rich (about Rs. 28 crores on an income of Rs. 150 crores per 1 per cent of the rich population) than a burden of Rs. 167 crores on 96 per cent of the population earning Rs. 1,200 crores (i.e., about Rs. 1.74 crores on an income of Rs. 12.5 crores per 1 per cent of the poor strata of population).[3] Thirdly, the dichotomy of the

[3] The above calculation is only rough, but it clearly contradicts the fallacy of taking Rs. 167 crores and Rs. 111¼ crores by themselves as the proportionate measures of burden on the rich and the poor.

Tax-paying public into the rich and the poor, apart from being necessarily arbitrary, omits the consideration of the middle classes, who, as we shall see, bear a large proportion of the tax burden, particularly of the customs duties, stamps, income tax and land revenue. Thus, it would appear that the figures do not prove that the Indian tax system is *regressive* in the correct mathematical sense of the term. Of course, this does not mean that the system should not be made more and more progressive or that the richer strata of society (especially those who escape with little taxation) should not be tapped further for revenue, thus helping welfare finance.

The next important enquiry in this connection was by Dr. H. L. Dey[4], who considered the distribution of the tax burden from the point of view of the incidence of fiscal measures, and compared the Indian with the British system of taxation. He stressed the "extreme regressiveness" of the Indian tax system by means of this comparison. His figures are quoted below:—

TABLE II

Relative Contribution of Direct and Indirect Taxation in India and the United Kingdom (1926-29)*

(Per cent of total tax revenue)

	India	United Kingdom
1. Income Tax and Super Tax ...	15.21	44.92
2. Stamps	14.07	4.00
3. Estate and Death Duties	..	11.03
4. Land Tax etc.	..	0.12
5. Customs and Excise	70.72	39.93
	100.00	100.00

* Land revenue is excluded from the Indian figures on the ground that it is a "share of the rent of land claimed by the State".

Dr. Dey's thesis is that the proportion of indirect taxation is much higher in India than in the United Kingdom. He

[4] *Op.cit.*, pp. 17-26.

excludes the figures for land revenue from the Indian tax revenue on the ground that land revenue is a share in the rent from land. If land revenue is included, the percentage part played by customs and excise in the above table is 53.38% instead of 70.72%. It is not possible to stage the controversy regarding the true character of land revenue in this place; only the conclusion may be briefly stated. Most economists in India are now agreed that, as the State has no ownership rights over land, land revenue partakes of the character of taxation. Even supposing it is a share in the rent from land, that share is in essence a tax on rent, and, in any case, the old classical notion that rent is not a cost of production but something earned without effort or investment is not generally accepted, and therefore, the further proposition that a share of rent does not inflict any burden cannot stand. There are further objections against the procedure of regarding customs and excise in India as wholly falling upon the poor. Anyone going through the import schedules of India can see that they consist largely of commodities consumed by the richer and middle-class sections of the consuming public, or of commodities useful in the production of such commodities. It is surprising, therefore, that Dr. Dey should class all the imports, other than the raw materials of industry, as "necessaries". Things like vehicles, artificial silk, wool, paper, silk, provisions and oilman's stores, foreign drugs and medicines, liquors, rubber manufactures, spices, glass and glassware, precious stones and pearls, paints, tobacco, stationery, toilet requisites, apparel, haberdashery and millinery, books printed, clocks and watches, earthenware and procelain, toys and requisites, cutlery, umbrellas and fittings, boots and shoes, furniture and cabinetware, sugar, tea, jewellery and gold and silver plate,—such articles are not the "necessaries" of the Indian masses. Barring materials of manufacture, the only other goods that remain are cotton piecegoods, salt, kerosene and matches, which are perhaps the only ones to be consumed in the villages. As regards the raw materials of industry and machinery, protection at any rate does not dictate such duties, and where they are levied, generally tariff equality prevents any harm being inflicted on the industries concerned. As far as cotton goods are concerned, we have seen that the

protection has been of the "safeguarding" variety mainly, and has only counteracted the effects of the appreciation of the Rupee, the depreciation of the Yen, and the dumping activities of India's competitors. Salt is enjoying practically no protection now, but only the excise is material in this connection. Matches are the only commodity enjoying substantial protection, while the kerosene duties are for revenue only. Thus it is clear (*i*) that the burden of the duties on imported commodities does not fall upon the poor, but largely upon the middle-class and richer sections of the public, and (*ii*) that, in the cases where certain commodities are consumed generally by the rich, middle-class and poor people alike, the "burden" is not due to protection, but due to revenue requirements. Owing to the higher standard of life enjoyed by the British people as a whole, the imported commodities in the case of the United Kingdom are subject to general consumption; hence the text-book theory that the burden of import duties falls upon the poor is particularly applicable there. But in the case of India it is wholly inapplicable. Here the poor, who live in villages and in the slums of cities, have a standard of life which is unequal to the purchase of imported commodities generally.

Apart from this, however, there has been a progressive improvement in the system of taxation in recent years, making its bias considerably more progressive, though no doubt it can be made still more so. Before the last War, taxation fell largely on the poorer sections only, but in the post-war period, owing to the introduction of income tax, super tax, and imposition of duties on luxury articles, there is a distinct improvement in the degree of progression. Not only this, but the trend of provincial taxation since the introduction of the 1935 reforms bids fair to be in the same direction. Sales taxes on mill-made cloth, petrol and other luxury commodities, property taxation, agricultural income tax, the reduction of liquor excise due to prohibition, the possibilities of introduction of inheritance taxation,—all these point towards such a development. Finally, if we compare some of the recent figures for the distribution of the tax burden in India and the United Kingdom, it would appear that there is not much difference between the two countries in this regard:

TABLE III

Relative Tax Burden in India and the United Kingdom

	India* 1936-37		United Kingdom† 1935-36	
	Rs. Crores	Per cent of total	£ Million	Per cent of total
Income tax and Super tax ...	15.4	12.0	290.4	39.4
Stamps	11.9	9.3	25.8	3.5
Estate duties etc.	..	..	87.9	12.2
Land revenue	31.9	24.9	..	..
Land tax etc.	..	..	.8	.2
Customs and excise	68.8	53.8	334.1	44.7
	128.0	100.0	739.0	100.0

* *Finance and Revenue Accounts of the Government of India*, 1936-7.
† *Statistical Abstract for the U. K.*, 1913-35 (18th November).

Dr. Dey's method of approach is to prove first that the system of taxation in India is "regressive" and then that it is being made still more regressive by the protective duties. Neither of these two propositions can stand. In the first place, mere comparison of Indian figures with British figures cannot give any guidance as to the bias of distribution of the tax burden; it may well be British taxation is more *progressive* than the Indian. Secondly, without examining the character of the commodities on which the protective duties are imposed or the class of consumers affected, it cannot be roundly asserted that protection has worsened the bias. Dr. Dey proceeds on the general assumption that all consumption taxes necessarily fall upon the poor and "encroach to a large extent the subsistence units of the income." As regards his further point that duties on the means of production impinge upon the growing industries of the country, in so far as the duties are revenue duties and have given rise to no nascent industries in the country internally, their function is of a different kind altogether and protection cannot be blamed for them. In so far as, however, they are necessitated by the needs of the industries themselves, we have to balance the gain due to

such duties to some industries as against the loss to others: here it is mainly a question of right choice between two alternatives. If, on the other hand, tariff equality is the aim, the burden of the duty must be shifted on to the final consumer in the interests of the industrial development, which is indeed the basic premise of protection.

A word here about the excise duties. In recent years, the Government has adopted the policy of levying countervailing and other excise duties on protected as well as non-protected articles. Such excise duties, at any rate, have relevance to protection, but in fact have a definitely adverse influence upon the development of industries. I have discussed in connection with the sugar excise and the excise duties on steel the effect of such duties on industrial development. Excise duties account for nearly Rs. 15 crores at the Centre and the Provinces taken together. Their burden has no relevance to the case against protection. What is surprising is that those persons (like Sir James Grigg, *e.g.. vide* his speech in connection with the inquiry by the Economic Adviser into the incidence of taxation, in March 1938), who protest loudly that "taxation in this country lets off the rich too lightly and presses the poor too heavily," and that "it would be very valuable to have that verified scientifically, and particularly to see that the cost laid by the present policy of protection upon the consumer not for the purpose of Government services but for the purpose of subsidising industry," should ignore the burden of the excise duties upon the "poor consumer."[5]

III

Tariff Levels and the De Facto *Burden*

One method of assessing the burden of import duties on the consuming public is to measure the level of tariffs.

[5] It may be remembered that in criticising the Tariff Board's remarks on sugar excise in 1938, the Government asserted that the burden fell on consumers only.

In 1927, under the auspices of the League of Nations an enquiry on Tariff Levels was conducted by a special committee of experts.[6] Different methods were used, the most important being to take typical export articles from 14 different countries, and to compare the average percentages of duty collected on these articles in each of the importing countries. A special calculation was made for manufactured commodities (with 110 articles as the basis) and the following results were arrived at:

TABLE IV

Level of Duties on Typical Manufactures: 1925

(Average of percentages)

Over 40 per cent ...	Spain.
35-40	U. S. A.
30-35	Poland.
25-30	Argentine, Australia, Czecho-Slovakia, Hungary.
20-25	Canada, France, Germany, Italy, Jugoslavia.
15-20	Austria, Belgium, India, Sweden.
10-15	Denmark, Switzerland.
Under 10	The Netherlands, United Kingdom.

These figures were collected at a time when economic nationalism was not quite rampant and when the United Kingdom was still on the free-trade basis. India also had just adopted the protective principle. But as a large part of the import tariff consist of revenue duties, and the protective tariff, except in one or two cases, is almost on the same level as the revenue duties, the rise in tariff levels has not been much, and India will probably still maintain her place on the lower rung of the ladder of tariff indices. The international comparison, however, gives little guidance as to the deterrent effect or effectiveness of the tariff in protecting local industries, if the averages of percentages only are taken. Spain, for example, in spite of having a high general tariff,

[6] *Memorandum on Tariff Level Indices* (League of Nations), 1927, Doc. C. R. I. 37.

is unable to develop her industries, while the United States with a lower tariff has been able to achieve better results. The effectiveness of the tariff depends upon not only the height of the tariff but upon other factors as well, such as the availability of raw materials, productive efficiency of the people, etc. Nor can the height of tariffs as shown by the tariff level indices indicate the true burden upon the consumer, because it might well be the case that the internal price might be much lower due to competition or over-production than the foreign price *plus* the duty (Witness, *e.g.*, the case of sugar during 1935-37 in India), and also because the relative importance of the commodities subject to tariffs might be different.

Recently, under the guidance of the Economic Adviser (Dr. T. E. Gregory), Mr. W. R. Natu conducted an enquiry[7] into the "*de facto* burden" of the tariff as measured by the ratio, $\frac{\text{Yield of Customs Duties}}{\text{Value of Imports}}$. When the tariff level is measured in this way, it only means that the weightage to the percentage (or specific) duties is given according to the part they respectively play in the *actual* import trade after the duties are levied. Thus the "*de facto* burden" indices cannot give an accurate idea as to the effectiveness or deterrence of the tariff, because the weightage has no reference to imports as they would have been if there were no duties imposed. Secondly, this "*de facto* burden" does not indicate the total burden of protection (in the case of protective duties) on the consumer, but only the revenue burden. It is clear, for example, that if an import duty is levied upon, say, sugar for the purposes of protection, the true burden on the consumer of protection will consist of two parts: (*a*) the duty *minus* any fall of the foreign price, multiplied by the total quantity imported; and (*b*) the total quantity produced within the country multiplied by the difference between the actual internal price of the commodity and the price that might have been in the absence of the protective duty. This is the true burden of protection. The enquiry conducted by Dr. Gregory and Mr. Natu does not

[7] *The Burden of the Indian Tariff*, 1939.

throw any light on this burden, but mainly analyses the contribution made by the various imported commodities to the governmental revenue. Of course, to estimate the true burden of protection, we shall have to study not only (*i*) the course of individual prices of the commodities protected, but also (*ii*) the extent of the fall in foreign price brought about by the duties, and, what is most difficult of all, (*iii*) the course of prices as they might have been in the absence of the protective duties. Fairly accurate data are available for (*i*), but in the case (*ii*) and (*iii*) it is mostly a matter of guess-work.

Dr. Gregory and Mr. Natu consider "the contribution to Import Revenue of different commodities, grouped according to their role in the productive process." Thus, they have classified the imports under four groups: Goods of General Consumption, Luxury Goods, Industrial Raw Materials, and Capital Goods. Articles of General Consumption include kerosene oil, chemicals, drugs and medicines, salt and cotton piecegoods, while for certain years sugar, matches and artificial silk fabrics are also included under this heading.[8] Luxury Goods include silk piecegoods, spirits, motor cars and cycles, and provisions and oilman's stores. Capital Goods include machinery, implements, hardware and ironmongery, building materials, iron and steel manufactures and conveyances (other than motor cars and cycles). Industrial Raw Materials include oils, unmanufactured tobacco, metals, and all textile materials and yarns. On this basis, they arrive at the following results:

[8] As better qualities of sugar and matches only are imported now, and as artificial silk now cannot be included under silk as a luxury item.

TABLE V

Percentage Burden of Import Duty on Different Import Groups

	1926-27	1927-28	1928-29	1929-30	1930-31	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37	1937-38
General Consumption Goods	21	21	20	23	42	37	42	45	39	44	48	30
Luxury Goods	21	21	22	22	23	47	48	46	44	42	37	31
Raw Materials	9	8	10	9	8	13	17	18	17	16	19	22
Capital Goods	13	12	10	9	9	14	20	18	18	18	18	17
TOTAL% ...	17.7	16.5	16.7	17.4	22.6	29.7	33.8	33.1	30.8	30.4	29.9	25.8

The so-called General Consumption Goods, however, are not all necessarily consumed by the poor, thus it is doubtful whether chemicals, sugar and artificial silk can be included under this heading. If correction is made for these, the percentages for the four groups instead of being 30, 31, 22 and 17 respectively would be approximately 26, 35, 22, 17 respectively. We must remember, however, that these proportions are according to the contribution made by these commodities to the import revenue. Hence they cannot be proper indicators of protection. Figures are collected by the joint authors also for certain imports subject to the protective duties, such as cotton piecegoods, sugar, iron and steel and matches:

TABLE VI

Certain Important Imports subject to Protective Duties

	1926-27	1929-30	1932-33	1935-36	1937-38
Import Duty Rs. Cr. ...	16.87	16.79	14.48	9.56	4.26
Value of protected Imports in Rs. Cr. ...	85.17	80.46	28.06	21.18	15.56
Burden per cent ...	20	21	52	45	27

Here also the "*de facto*" burden is assessed; hence owing to the preponderance of sugar in the import duty for 1932-33, the percentage of protective burden seems temporarily high and then owing to falling imports is reduced later. Does it mean that the true burden of the protective duties has fallen in recent years? The figures provide no guidance, as they refer to the Government's revenue only. In a foregoing paragraph, distinction was drawn between the two parts of the "true burden," viz., the revenue part consisting of the duty (*minus* any reduction in the price of the imported commodity due to the duty) multiplied by the quantity imported, and the part of the burden which is equivalent to the contribution made by the consumers to the producers, *i.e.*, the total quantity produced within the country multiplied by the difference between the actual internal price of the commodity and the price that would have ruled in the absence of the pro-

tective duty. The *de facto* burden assessed on the Gregory-Natu plan refers to the former part of the burden only; clearly it cannot help us to ascertain the total burden on the *consumer*.

IV

Conclusion

What then are the broad conclusions regarding the burden of protection on the consumer? In the first place, the Indian tax system is not regressive as is made out by certain critics of protection. Secondly, if it is regressive, it is not made more so by the scheme of protection, in view of the fact that the commodities protected are not necessaries consumed by the poor, except in one or two cases. In the case of cotton piecegoods, the duties were necessitated largely by the exchange situation and dumping, and, therefore, only nullified the undue advantage obtained by the consumers. In that of paper, consumers belong largely to the middle-class and rich sections of the public. In that of iron and steel, as was shown by the Tariff Board, in their enquiries of 1924 and 1926, the consumers belong largely to the richer strata or consist of governmental departments, or port trusts etc., while the burden on the agriculturists in regard to his implements comes to an infinitesimal fraction of his current cost of production per unit of output. In regard to matches, the Tariff Board stated that duty or no duty, the price of matches was a conventional affair depending upon the monetary unit, which in the case of India was one pice per box. So the protective duty has made little or no difference so far as matches are concerned. Finally, in regard to sugar, there is hardly any doubt that the consumer belongs to the upper and middle classes mostly, while the corresponding commodity for the vast multitude of poor people is *gur*. The burden of the protective duty on sugar, therefore, falls upon the people who are best able to bear it. Mr. (now Sir) Charles Innes, in the course of the fiscal policy debates in 1923, declared: "If the agricultural classes, which form the bulk of the population in India were able

fully to bring their influence upon this Assembly, I doubt very much whether this Assembly today would accept my amendment." Similarly, Mr. (now Sir) A. G. Clow wrote; "Of the keen desire of Indian industrialists and the educated middle classes for protection, there had never been any doubt. But the masses of the country were agriculturists and the main part of the sacrifice involved in the abandonment of free trade would fall on them. They were the most non-vocal but those agriculturists who were able to make their voices heard were naturally apprehensive regarding the burden that protection would place on them."[9] This is the general official view. But would it be a revelation to those who hold it that it is *not* the masses, but the very educated classes (and in some cases, such as raw materials and capital goods, conceivably the industrialists) themselves have borne the burden of protection? Not only this, but in the future if there is further industrialisation as a result of protection, who else but the consumers of higher classes of manufactures will be bearing the burden? If, finally, we draw up a complete account of the costs and gains of protection on both sides of the ledger, is there any doubt about the net result regarding employment, national dividend and productive capacity?

CHAPTER XX

THE TARIFF MACHINERY AND PROCEDURE

The Tariff Board was appointed by the Resolution of the Government of India in the Department of Commerce No. 3478, dated the 10th July 1923, which read as follows:

"On February the 16th, 1923, the following resolution was adopted by the Legislative Assembly:—

"That this Assembly recommends to the Governor-General in Council,

(*a*) that he accepts in principle the proposition that the fiscal policy of the Government of India may legitimately be directed towards fostering the development of industries in India;

(*b*) that in the application of the above principle of protection, regard must be had to the financial needs of the country and to the present dependence of the Government of India on import, export, and excise duties for a large part of its revenue;

(*c*) that the principle should be applied with discrimination, with due regard to the well-being of the community and to the safeguards suggested in paragraph 97 of the Report of the Fiscal Commission;

(*d*) that in order that effect may be given to these recommendations, a Tariff Board should be constituted for a period not exceeding one year in the first instance, that such Tariff Board should be purely an investigating and advisory body and should consist of not more than three members, one of whom should be a Government Official, but with power, subject to the approval of the Government of India, to co-opt other members for particular inquiries."

This Resolution forms the only legislative foundation of the Tariff Board in India. There is no Statute laying down the precise constitution, functions and procedure of the Board as in other countries, such as the United States and Australia. This is a matter of considerable disadvantage especially from the standpoint of the Tariff Board itself, which not unoften feels inconvenienced owing to the lack of a clear definition of its powers. In this connection, we may instance the

controversy, already discussed in detail in Chapter VI, Section xiv, regarding the sugar excise duty. Of course, to some extent, the *Report* of the Fiscal Commission possesses documentary importance as the original instrument from which the powers of the Board and their definitions are derived, and in practice the Board has on numerous occasions referred to salient paragraphs of the Fiscal Commission's *Report* when deciding doubtful issues. The foregoing Resolution mentions only paragraph 97 of the *Report*, viz., the one laying down the Triple Formula of Discriminating Protection. Yet, paragraphs 98, 99, 101, 103, 106, 108, 113, 117, among others, have had a vital bearing on the actual determination of policy. Moreover, paragraph 306 indicating the functions of the Board, and paragraphs 308-9 defining the qualifications and number of the Board, are also of some significance. The absence of any clear-cut constitution for the Tariff Board has, it must be said, prevented the Board from definitely and unequivocally stating its views in view of the *ad hoc* definition of its powers in the terms of reference of each enquiry. If we refer to the terms of reference of the various enquiries referred to the Board, even there we come across variation in the methods of application of the formula of protection. As a result there has been occasional friction between the Government and the Board as (e.g.) in the case of the sugar enquiry in 1938. It is a matter of urgent importance that the precise powers and duties of the Board as also its constitution should be definitively laid down in a statute, as in other countries.

I

The Constitution of the Tariff Board

The present machinery of the Tariff Board is as described briefly in the Resolution quoted above. There is a President and one or two members. Although the Fiscal Commission suggested three as a minimum number,[1] actually three has

[1] Cf. *Report*, p. 146: "The Tariff Board which we contemplate should certainly *not have less than three* members." (Italics mine).

become the maximum number for the personnel of the Board. The tenure of the members and the President varies widely, from a few months to as much as eight years (in one case). In some cases, the term of office is renewed from enquiry to enquiry, in others, it is limited to one enquiry only. As the appointments are made by the Executive (which, in this case, is not responsible to the Legislature), there is no doubt that this insecurity of tenure is a probable source of interference with an impartial judgment, although, on the whole, the Board has not allowed its judgment to be warped as a result of this. As Professor Vakil points out: "It is notorious that this method of constituting the Tariff Board has made certain persons who are already members of the Board and desire their renewal, and others who are seeking appointments to the Board, dependent on the Executive. In practice, it is not uncommon to find that persons who are likely to support a view already in the mind of the Executive find favour with them for appointment to the Board. Besides, the work of such persons is often rewarded either by promotions or by honours. The temptation to obtain these rewards at the hands of the Executive is bound to come in the way of an impartial judgment on the part of the members of the Tariff Board."[2] From a detailed study of the personnels of the past Tariff Boards, it appears that out of a total number of 113 positions, 71 were held by officials, while the rest were held by business men, economists and politicians. Not only this, but on most occasions, even in the Board itself a majority of members has consisted of officials, thus ensuring the Government viewpoint full expression and effect. This preponderance of the official element itself has been a vitiating influence so far as the Board's impartiality is concerned, especially in view of the known free-trade proclivities of the Government of India.

The selection and tenure of the Board members imply other essentials also. The Fiscal Commission stated that "the Board must be one which will command the confidence of the country, and must be above suspicion of any subservience

[2] *Madan Memorial Lectures*, p. 9.

to particular interests."[3] Towards this end, it is necessary that the tenure should be longer and more definite and beyond the pale of official interference. There must also be rigorous restrictions on ex-members taking up any posts either as servants, or directors, or partners in business concerns, though private investments in securities might be permitted. Active participation in industrial concerns by ex-members is always likely to be a source of corruption, which in the interests of the Board's integrity must be legally prohibited. But such restrictions necessarily imply that there should be some security in the tenure of the members and that their appointments should not be cut short at the sweet will of the Executive.

This leads us to the question whether the Tariff Board in India is (and should be) an *ad hoc* or permanent body. The Fiscal Commission had suggested the institution of a permanent board. "It is evident," they said, "that the Board must be a permanent body. Consistent decisions and continuity of policy are of primary importance, and these cannot be secured except from a permanent board. We therefore rule out at once any idea of such an organisation as has been set up in the United Kingdom to deal with enquiries under the Safeguarding of Industries Act. There the Board of Trade refers particular enquiries to a committee consisting of five persons selected by the President of the Board from a permanent panel appointed by him mainly of men of commercial and industrial experience. No arrangement of this kind would give the continuity which is essential to the Tariff Board we contemplate."[4] There are no doubt overwhelming advantages in favour of a permanent board, apart from those of consistency and continuity of policy: If the Board is overhauled over and over again, this must react unfavourably upon its efficiency, inasmuch as every new member appointed necessarily takes considerable time to get initiated into the mysteries of tariff procedure and methodology. Secondly, acquired experience and efficiency must result in quick deci-

[3] *Report*, p. 143.
[4] *Ibid.*, p. 143.

sions being arrived at,—a matter of immense and vital importance to struggling industries. Thirdly, speedy despatch of work is bound to reduce the total costs of such enquiries. Fourthly, as stated above, permanency of tenure must produce the desirable result of the Board's decisions being unhampered by the Executive's viewpoint, i.e., in this case, must lead to impartiality, very much like the decisions of an independent judiciary. The only possible drawback of such arrangement might be regarded to be the possibility of corruption. But this particular possibility is equally great, if not greater, in the case of temporary appointments, where the temptation is equally present. In either case, however, it is open to the Government to expose any cases of corruption in a deterrent manner. For instance, in the Australian Act provision is made under which the Governor-General may suspend any member for misbehaviour or incapacity, provided that within seven days after the suspension (or within seven days after the next meeting of Parliament) the Minister is required to lay before both Houses of Parliament a full statement of the grounds of the suspension.[5]

Is the Indian Tariff Board permanent or *ad hoc*? There is no doubt that in effect it has become *ad hoc*, although in a recent Legislative Assembly discussion following the temporary winding up of the Board, it was stoutly denied by the Government that it was so. It was stated that the Tariff Board was not wound up, but only that, as no enquiry was coming up for some time, it was temporarily disbanded. It was also stated that the Tariff Board machinery was permanent. Thus it would appear that the Tariff Board is both *ad hoc* and not *ad hoc*! Recently, it was announced by the Government that they had decided not to set up Tariff Boards for re-examining the protective duties which were expiring on March 31, 1941, for the reason that it would be difficult for them to get the necessary data owing to the prevalence of abnormal and unsettled conditions caused by the war in in-

[5] Cf. Henry Chalmers' "Tariff Making in Great Britain and the Dominions," in the Annals of the American Academy of Political and Social Science, January, 1929.

dustries in general. At present, therefore, there is no Tariff Board functioning. It follows that the practice of the Government has been to appoint a *separate* Tariff Board for each enquiry: the fact that, sometimes, certain members have been able to secure extensions from one Board to another is not material. This certainly was not the intention of the Fiscal Commission when they recommended the establishment of a permanent tariff board. The Government's contention has been that the "machinery" was in existence and that what was disbanded was the personnel of the Board. But what is meant by the "permanent machinery" of the Board? It no doubt would comprise a large Secretariat, with a permanent Secretary and probably a President as well, directing the routine work, conducting informal investigations in connection with protective measures already adopted, examining the potentialities of new industries and collecting data on matters relating to trade and tariffs, production and prices and so on. It cannot be said that there exists or existed at any time any such machinery of the Board. The essential point to be grasped is that a permanent Board will guarantee a sufficiently long tenure of service to the members and thus place them beyond the pale of Executive interference. In other words, the Tariff Board must be regarded as an economic judiciary, unamenable to influence from either private or public quarters.

II

The Functions of the Board

From the Resolution appointing the first Tariff Board, it appears as if the only function of the Board was to apply the formula of Discriminating Protection. However, in practice, there has taken place an extension of the scope of the Board's functions. Apart from the mere question of *substantive* protection, the Board has investigated cases of Tariff Equality and Dumping, including Exchange Dumping, and have recommended tariff changes accordingly, although the Safeguarding of Industries Act 1933 was the result not of a Tariff Board but departmental investigation. As we have

noticed, moreover, the Board has on several occasions somewhat liberally interpreted the formula of Discriminating Protection. Thus, it appears that by usage and sufferance the Board has already acquired functions beyond those which were originally laid down in the instrument of its appointment. There has been no misuse of such opportunities. In spite of this, there are certain matters which have been still kept outside the province of the Board. In the first place, the incidence and effects of revenue duties upon the industrial structure have not been properly investigated, and, as noted previously, revenue duties have been altered or withdrawn without consideration being given to the indigenous industries. Although the Government must retain the ultimate authority for making alterations in revenue duties, there is no harm in requiring the Board to examine (confidentially if necessary) the probable effects of such alterations. Many an industrial nurseling has been strangled in its infancy by light-hearted and reckless changes of revenue duties. In such cases, as the industries have been minor industries, even proper representation by the parties concerned to the Government has not been always feasible. In this respect, reference might be made to the British practice which requires the Import Duties Advisory Committee to inquire into changes in import duties, although the Cabinet may not accept its findings necessarily. Secondly, schemes of Imperial Preference or Bilateral Agreements are decided upon by the Government themselves without any reference being made to the Tariff Board. Although the Government could well retain the final power in this connection, there is no reason why (as in Australia) the preliminary data should not be sifted and the fullest possible investigation made by the Board prior to the Government's entering into treaties of this kind. The efficient machinery of the Board could be utilised not only for this purpose, but also for studying the later effects of such Agreements and preparing the factual ground for taking further decisions in renewing or altering the Agreements. Thirdly, the Board is not required by the Government to make a continuous study of the data regarding trade, prices, production for each protected industry, as in the United States and Australia, where Tariff Boards are invested

with this special function. No doubt, to some extent, this purpose is served by the periodical enquiries necessitated by the short periods of protection. But much time and travail are likely to be saved if a permanent machinery of the Board is erected and required to keep a continuous record of statistical and other data, in close collaboration with the Statistical Department of the Government, regarding the protected industries. It is a false economy if the idea of the Government in not keeping such machinery alive and active is to save money; for, it is clear that the greater despatch of the Board in disposing of the enquiries must result not only in substantial economies, so far as the Board's own expenditure on salaries etc., is concerned, but also—and this is immensely more important from the national standpoint—in preventing enormous losses being incurred by the applicant industries owing to delayed action. Prompt and effective action is the very soul of protection be it of the substantive or anti-dumping or any other variety. The present machinery and arrangement regarding the Tariff Board fails to satisfy this test, as we shall see in a moment.

Apart from the functions outlined above, there are a number of others which can be usefully assigned to the Board. The Fiscal Commission envisaged numerous other functions for the Board including the following:[6] (*a*) to consider the effects of excise duties on Indian industries; (*b*) to report on what commodities revenue export duties can safely be levied; (*c*) to consider the effects of *ad valorem* and specific duties and tariff valuations on various articles and to make recommendations for any changes that may be desirable; (*d*) to consider to which articles preferential rates of import duty in favour of the United Kingdom might be extended as also to report on proposals for perferential agreements with any of the Dominions and Colonies; (*e*) to investigate questions regarding the treatment of Indian products by foreign countries and the advisability of taking any retaliatory action in special cases; (*f*) to investigate any complaints regarding combinations of manufacturers to the detriment of the Indian

[6] *Report*, p. 145.

consumer and to make recommendations for any necessary action; (*g*) to watch generally the effects of the tariff policy on the cost of living; and (*h*) to study the tariff systems of other countries. For the proper discharge of some of these functions the Tariff Board machinery would have to be not only extended but also made permanent.

III

The Procedure of Protection

As there is no legislative document governing the working of the Tariff Board, the procedure has developed by convention. The procedure of tariff protection is briefly as follows. In the first instance, the representatives of the industry concerned submit a detailed application to the Commerce Department of the Government of India fully stating the "case" for protection, including the circumstances which might have necessitated it and the arguments justifying its grant. The Commerce Department studies the application very carefully and, if it is satisfied that a *prima facie* case is made out by the applicant industry, forwards the application to the Tariff Board for consideration. The Tariff Board then issues a communique, inviting representations from industrialists and others interested, and also a questionnaire. The members and President visit factories and important centres of the industry concerned, collect all important relevant data, record written statements and take oral evidence.[7] The report is

[7] The representations, statements and oral evidence are all published along with the final report. Sometimes, the report is published prior to legislative action. This provides scope for a full discussion of the pros and cons of the case, after proper study, in the Legislature. Recently, however, the Government have adopted the practice of releasing Tariff Board reports for publication on the same date as the tariff bill or finance bill. This prevents members of the legislature from making a thorough study of the question of protection. There have been frequent complaints on the part both of legislators as well as business men in this connection. Seeing that the Government is neither bound to nor does in fact accept the tariff proposals of the Board, one cannot agree that prior publication of the reports is likely to cause speculation.

submitted by the Board to the Government of India in the Commerce Department. The report is then studied by the officials of that Department, who ultimately decide in collaboration with the Finance Department, whether any and how much protection should be granted. Then the Government places the proposals in the form of a bill for consideration of the Legislature. If the bill is passed by a majority of the Legislature, and if it receives the assent of the Governor-General, it becomes an Act. As the bill is a money bill, the Legislature has no right to increase the rates of duties proposed but only to reduce them. The Governor-General possesses the final power of veto and certification, here as in other cases.

It is clear from the above that the Executive enjoys an undue measure of power to interfere with the progress of an application for protection. Right from the stage at which the application is submitted to the stage of the final legislation, the Government have their finger in the protection pie. If it so wishes, it can sit tight on the application at the very first stage, on the ground that there has been no *prima facie* case proved, thus prejudging an issue which should have been legitimately threshed out by the Board itself. Then, again at a later stage, the Executive can, if it so wishes, stalemate protection by picking holes in the Board's findings and proposals. Finally, even if it approves of the Board's general recommenation in favour of protection, the ultimate power of drafting the bill lies with it also, and as the rates of protective duties cannot be raised by a private motion, its decision in this respect is also final, although sometimes at the select committee stage there is scope for popular opinion influencing decisions.

There is no doubt that much time is lost owing to these references backwards and forwards of the applications. In the first instance, the Board's procedure itself is essentially dilatory, as the Board is required to collect facts and figures which should have ordinarily been collected for them by some permanent agency. On top of that, it must examine witnesses, visit industrial centres, have formal and informal discussions with experts and among themselves, and after mature deliberation, must produce the report. This no doubt has much educative value for the members of the

Board, especially those who are appointed for short periods; and it may also be admitted that a thorough investigation is a necessary condition-precedent to grant protection. But the point is that the same results can be achieved in much shorter time and the procedure can be expedited without any injurious effects. The Imports Advisory Committee of the United Kingdom, for example, is a body which disposes of work much more quickly. So also the Tariff Board of Australia. The latter Board has the following recorded disposal of enquiries to its credit:[8]

Year ended 30 June 1932.............. 56 enquiries.
Year ended 30 June 1933.............. 71 enquiries.
Year ended 30 June 1934..............109 enquiries.

Commenting on this, the Australian Minister for Trade and Customs stated: "Careful and mature deliberation, combined with expedition, is the chief concern of the (Australian) Tariff Board. Taking into consideration the complex nature of the enquiries, the wide field of investigation, and the wealth of information which must be carefully sifted and considered, its record is most creditable, and compares very favourably with the record of the Tariff Board of any other country."[9]

But the lack of speed on the part of the Board is only half the story; the later delays are sometimes far greater and in some cases clearly objectionable. It would appear as if the Government has generally kept such reports hanging fire as particularly offended their free-trade susceptibilities. I have already fully discussed in Chapter XVII, sections ii and iii, the nature, extent and causes of these delays and do not wish to indulge in repetition. Delay in rumination over the reports, delay in publishing them, delay, again, in taking action on them, delay even in rejecting reports,—this has been the usual story. In the meantime, sufficient harm is done to the national industries, and sometimes it must be beyond repair. One cannot believe that the Government could not really

[8] Copland and Janes, *Australian Trade Policy*, p. 382.
[9] *Ibid.*, pp. 381-2. Between 1923 and 1939, the Indian Tariff Board disposed of about 49 cases.

expedite consideration of reports before taking action, and make the period between the initial application for protection and its final grant as brief as possible. The marvellous speed with which some of the industries received the Executive's support suggests that there is nothing inherently difficult or impossible in it.

Another important aspect relating to the Board's work is publicity. The importance for giving the utmost publicity to the proceedings of the Board was stressed by the Fiscal Commission,[10] who stated that publicity would ensure full consideration being given to all interests affected and also inspire confidence and remove the possibility of suspicion that recommendations were based on anything but the public interests. They also stated that it was impossible to avoid the disadvantage of public discussion of proposed changes in the tariff resulting from speculation which it might encourage. But as occasionally information of a confidential character had to be collected from industrial concerns, especially regarding costs or trade secrets, the Board had in practice to take evidence sometimes *in camera*, thus ensuring its availability. Publication of the report and the proceedings of the Board at the earliest possible date after they have been received by the Government is another desideratum. In the past, on several occasions, even legislators have not been able to get copies of reports in advance so as to study the problems of a particular industry seeking protection and to participate in the legislative discussions. Allied to the question of publicity is that of special powers for the Board to compel industrial firms to give evidence. The hesitation on the part of industrialists is often due to the fear that confidential information may be divulged to competitors. If the Board is sworn to secrecy in regard to such matters, if evidence is taken *in camera* on such occasions, and if members of the Board are prevented from joining or otherwise participating in industrial concerns, this fear is likely to be minimised. Sometimes, however, as happened in the case of the woollen industry, a large section of the industry might refuse to give

[10] *Report*, pp. 143-4.

evidence for quite other reasons. This is a fact of serious importance, particularly because such a refusal itself has been made the excuse for not granting protection. The Board must be armed by the law with adequate powers to deal with such situations.

Another question in this connection is that of the facility granted to rival British interests on a "reciprocal" basis to tender evidence and to cross-examine the evidence tendered by Indian interests. This procedure is unheard-of in the history of the world's tariffs. If it were not for the facesaving device of "reciprocity" adopted, it would have appeared, as unjust as it is absurd. As there is hardly any likelihood (for obvious reasons) of any Indian interests exercising this right conceded to them, the reciprocity has little meaning. The Murray Tariff Board on Cotton Textiles adopted this procedure, and, as already stated, it was part of the agreement arrived at under the Supplementary Indo-British Trade Pact of 1935. The Supplementary Pact of 1935 was renewed in 1939; it is not, therefore, clear how the position stands now.

IV

Tariff Machinery Elsewhere

Let us briefly consider the characteristics of the tariff board machinery in other countries. In particular, the examples of three countries, viz., the United States, Australia and the United Kingdom are worth studying.

(*a*) United States

The Tariff Commission in the United States in its present form was constituted in 1916 and its work was considerably extended by the McCumber Tariff of 1922 and by the Flexible Tariff of the same year. The Commission's organisation consists of four parts: the office of the Chief Investigator, the office of the Chief Economist, the Legal Division, and the Secretariat. The Chief Economist supervises the general investigations conducted by the Commission, while the

Chief Investigator controls investigations relating to new tariff proposals. Each of them again has under him a number of divisions with expert staffs, such as divisions relating to chemicals, pottery, glass, metals, woods and paper, sugar, agricultural products, textiles, leather, sundries, preferential tariffs and commercial treaties, etc. The expert handling of the problems of each industry is of great assistance to the Commission. The Commission itself consists of six members, not more than three of whom must belong to the same political party. The President of the United States appoints all the six members while the Chairman is elected by the members. The first Chairman of the Commission was Professor F. W. Taussig, the well-known economist, whose work has left an impress on the work of the Commission. The functions of the Commission are: (*i*) to investigate the administrative, fiscal and industrial effects of the customs laws on the relations between the rates of duty on raw materials and finished or partly finished products, the effects of *ad valorem* and specific duties and of compound specific and *ad valorem* duties, all questions relative to the arrangement of the schedules and classifications of articles and in general to investigate the operation of customs laws; (*ii*) to supply to the President of the United States and the Legislature with information asked for by them, and to make investigations when directed and to submit annual reports of its work during the year; (*iii*) to investigate the tariff relations between the United States and foreign countries.[11] It is apparent that the American Tariff Commission has a large and costly machinery for investigation of the various aspects of tariffs and it performs far more functions than the Indian Board. Its strongest point appears to be the large technical organisation which assists the Commission at every stage and keeps it fully informed about facts and figures. It should be possible

[11] Sections 315, 326, 702-4, of Title VII of the U. S. A. Revenue Act of 1916. For a full discussion of the Commission's functions, see T. W. Page, *Making of the Tariff in the United States*; also Fisk and Pierce, *International Commercial Policies*; for a useful critique of the Commission's composition and powers, *cf.*, *Quarterly Journal of Economics*, November 1930, an article by Professor Taussig.

for the Indian Board to copy this feature to some extent without encumbering itself financially.

(b) Australia

The idea of a board which should investigate tariff matters and advise both the Parliament and the Ministers had been agitated in Australia intermittently since the beginning of the century, but this idea did not take a definite shape till 1921. The advantages expected to follow from the appointment of the Tariff Board were thus stated by an Australian economist:[12]

"It was thought desirable to have a special body which would study the operation of the tariff and its effects upon the development of Australian industry. Moreover, members of Parliament were anxious that when they were dealing with general tariff schedules they should be able to rely upon exact evidence and carefully compiled information, instead of the vague or interested *ex parte* statements and the lobbying to which they had been accustomed. It was even hoped that this would lead to the framing of tariffs on 'scientific lines' in place of the usual empiricism......The Tariff Board was to be *inter alia* a means to the end of protecting the consumer......The negotiation of these (reciprocal) treaties necessitated careful enquiries and research, and for this the machinery of the Tariff Board was considered peculiarly suitable......"

The Board was made up originally of three members, and later enlarged to four who are appointed by the Governor-General for terms of one to three years with eligibility for reappointment. An administrative officer of the Department of Trade is appointed the chairman in order to secure a close liaison between the Board and the Department. For the other three members, the practice appears to have been to choose one man each to represent the interests of the manufacturers, of the importers, and of the primary producers of the Commonwealth. The functions assigned to the Board are briefly as follows:[13]

[12] Professor R. C. Mills in an article in the *Economic Record*, May 1927.

[13] As set out in Sections 15 and 17 of the Act of 1921. The Amending Act of 1929 relieves the Board of minor responsibilities and allows

(1) The classification and valuation of goods; (2) consideration of the necessity of new, increased or reduced duties, and the deferment of existing or proposed deferred duties; (3) consideration of the necessity of bounties, also the effect of existing bounties or of bounties subsequently granted; (4) the application of preferential tariffs; (5) complaints that a manufacturer is taking undue advantage of protection by charging unnecessarily high prices, or acting in restraint of trade, etc.; (6) the general effect of customs tariff and excise tariff, including the fiscal and industrial effects of the Commonwealth's customs laws. The Board is also empowered to inquire into and report on any of these matters not only on the reference by the Minister, but also on its own initiative.

In accordance with the 1924 amendment to the Act of 1921, enquiries conducted by the Board relating to revision of tariff or proposals for bounties, or complaints of abuses of tariff duties granted, must be held in public, and evidence must be taken in public under oath, with the provision that, upon the objection of a witness, evidence of a confidential nature may be presented *in camera*. The Board visits all the important centres of an industry and tours the whole continent to get first-hand information. It may be noted that the Board is required by law to present an annual report to the Minister each July as to the operation of the tariff and development of industries in order to enlighten the public and Parliament as to the tariff situation.

(*c*) Great Britain

In Great Britain tariff changes are effected either through the usual machinery of budget-making by the Chancellor of the exchequer himself on his own initiative or acting upon the advice of an advisory body. Subsequent to the passing of the Safeguarding of Industries Act in 1921, the Government adopted what was styled the "White Paper Procedure," which consists of the following steps: (*i*) First the industrialists

it to take evidence in two sections. A new clause has been added empowering the Board to confer with the Director of Economic Research. A separate Act was passed in 1929 providing for a Bureau of Economic Research. Cf. *The Australian Tariff—An Economic Enquiry*, by Professors Brigden, Copland and others, pp. 160 ff., also pp. 130 ff.

[14] Cf. *Annals of the American Academy*, *Sup. cit.*, pp. 79 ff.

concerned made applications for tariff reconsideration to the Board of Trade; (*ii*) later, if the Minister was satisfied that a *prima facie* case had been made out, the matter was referred to a special committee of three to five persons appointed *ad hoc* for the purpose; (*iii*) if the Report of the Committee was favourable, the proposals were adopted. The reports of the Committees were printed fairly promptly, but the Board of Trade reserved its own judgment on it till the final formulation of budget proposals. This procedure was thought to be dilatory. In 1932, therefore, an Import Duties Advisory Committee was constituted for three years in the first instance, but eligible for reappointment. The Committee was authorised to consider applications for tariff changes. The hearings of the Committee have been always held in private; there is no right of public criticism; and the Committee, if it so desires, can suppress information. The Government may accept or reject the reports, may publish them or shelve them, but if the Cabinet accepts the proposals in any report, it cannot levy a duty higher than that recommended by the Committee, although the duty can be less and alterations can be made in details.

V

Conclusion

To sum up, the main respects in which the Indian Tariff Board suffers by comparison with the other Boards are: (1) the narrower scope of its operation; (2) the uncertainty of the tenure of its members; (3) its entire dependence upon the Department of Commerce and the lack of initiative in regard to enquiries into tariff and industrial questions. In a country, in which the Executive is not responsible to the Legislature or to the will of the public, an excessive preponderance for it in determining tariff issues must interfere with impartial decisions. This important differentia has to be borne in mind when comparing the Indian with other models. Reform is essential in extending the activities of the Board, in making its machinery permanent, in giving to its members security of tenure and, finally, to reduce the preponderance of the official incubus from which the Board seems to suffer at present.

CHAPTER XXI

THE CONSTITUTIONAL ASPECTS OF FISCAL POLICY

The fiscal powers of India and her commercial relations with the United Kingdom had been regulated for over fifteen years in accordance with the provisions of the Fiscal Autonomy Convention, which has been already described in Chapter XVI, section iii. With the passing of the Government of India Act of 1935, the Convention must be regarded to have lapsed.[1] The commercial provisions of the Constitution of 1935 constitute one of the most crucial and controversial factors in the changes thereby effected. We shall, therefore, study somewhat carefully the implications of these constitutional changes and their probable influence on our future industrial development.

I

The Fiscal Autonomy Bauble

The Fiscal Autonomy Convention was necessitated by the fact that the framers of the 1919 Constitution were unwilling to embody the powers of the Indian Government and Legislature in a statutory form. It was pointed out by the Joint Parliamentary Committee that no Dominion had its fiscal powers so recognised in a statute, which would limit the ultimate power of Parliament and the prerogative of the Crown. But, they said, it was necessary that India "should have the same liberty (*sic*) to consider her interests as Great

[1] *Cf.* Report of the Joint Parliamentary Committee, para. 343, where the Committee observe: "With the passing of a new Constitution on the lines of the recommendations we make in this report, the Convention, in its present form at all events, will lapse."

Britain, Australia, New Zealand, Canada and South Africa." Thus arose the so-called Fiscal Autonomy Convention. What was the precise content of the Convention? In the first place, it prohibited the Secretary of State from interfering when the Government of India and its Legislature were in agreement regarding a fiscal measure. This may bring to our mind the historical clashes between the Secretary of State and the Governor-General's Council of old. It also emphasises the fact that the Government of India consisting entirely of Government officials and nominees could be relied upon to be in agreement with the Legislature only when the issues were non-controversial or did not adversely affect British interests. If, however, there was a difference of opinion between the Government and the Legislature, the Secretary of State, by implication, could interfere, but obviously his interference in such cases would be quite unnecessary, because the difference of opinion was bound to be due to precisely for the reasons for which such interference would be necessitated. Thus, where there was agreement between the Government and Legislature, there could be no inherent clash of interests; but where there was disagreement, the Government could be relied upon to carry out the Secretary of State's policy even without interference. Moreover, in the event of disagreement, the powers of veto and certification could be utilised. Thus, if there was any "autonomy" in this, it was for the Government and not for the Legislature; so far as the Legislature was concerned, it reminds one of the story of the hen-pecked husband who said: "Yes, my wife and I are always in agreement; well, she decides and I agree!" In March 1930, Sir George Rainy gave the following official interpretation of the Convention, in the course of the debates on the Cotton Textile Industry (Protection) Bill:[2]

"The fiscal autonomy convention means this, that *while there is always previous consultation with the Secretary of State*, the final decision as to proposals to be placed before the Legislature rests with the Government of India and with no one else. In this respect, apart from

[2] *Legislative Assembly Debates*, 1930, Vol. III, pp. 2257-8.

the previous consultation with the Secretary of State, the position of the Government of India is that of a Dominion Government which decides for itself the proposals it will place before the Legislature. As soon as the Legislature arrives at a decision, one of two things happens. The Government of India and the Legislature are in agreement and in that case everything proceeds as in a Dominion. If the Government and the Legislature fail to agree, there is a difference. In India, under the present (1919) Constitution, the actual effect is that the convention ceases to operate and the Government of India come once more under the control of the Secretary of State, for as soon as the Government of India and the Legislature fail to agree the convention is at an end."

The official interpretation clearly shows that there was previous consultation with the Secretary of State as regards every measure. Can there be any difference of opinion between him and the Government of India on any issue which adversely affected British interests, or, what is the same thing, on any issue in regard to which the Government of India and the Legislature differed? It is not necessary, however, to beat about the bush and proceed in an *a priori* manner in this connection. Let us briefly examine the meaning of "agreement" and disagreement by reference to actual events. On the occasion of the grant of preferential treatment to British steel in 1927, Sir George Rainy himself indicated to the non-official members of the Legislative Assembly that if the Bill were not passed in the form in which it was presented, it would be withdrawn *in toto*. In such cases, agreement was secured with threats. In Chapter XVII, section iii, we have already seen what industries received protection and why. It would appear instantaneous agreement was possible in non-controversial matters, but in other cases, the Secretary of State's interference, which amounted to interference on behalf of British interests, was easily discernible. The so-called Fiscal Autonomy Convention, therefore, smacked very much of the merry old game of "Heads I win, tails you lose."

The other part of the Convention stated that interference by the Secretary of State was valid, in spite of a possible agreement between the Government of India and its Legislature, where it was a question of "safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party."

This was a reminder that India had not attained Dominion Status and that she had no freedom to enter into commercial agreements with foreign governments without the active intervention and intermediary of the Secretary of State, i.e., His Majesty's Government. Similar restrictions were placed upon the Dominion Governments until 1907, when at the time of the commercial agreement between France and Canada, full diplomatic freedom was conferred upon the Dominions to negotiate treaties with foreign powers without the intervention of His Majesty's Government. In the case of the Indo-Japanese Trade Agreements, the Protocol, as well as the Convention, was signed by His Majesty's Government (by the Foreign Secretary, Sir John Simon, and the Secretary of State for India, Sir Samuel Hoare) on behalf of India. Similarly, on the occasion of the Safeguarding of Industries Bill of 1933, India was precluded from levying discriminatory tariffs against Japanese exchange dumping, owing to the operation of the most-favoured-nation clause inserted in the Indo-Japanese Convention which was necessitated by Britain's international obligations.

II

The Commercial Safeguards

That the Fiscal Autonomy Convention was a mere bauble was already crystal-clear in view of the subtle implications of the formula suggested by the Joint Parliamentary Committee in 1919. But it was fondly hoped at the time of the constitutional deliberations of 1929-34 by the Indian representatives that, with the grant of further political power and the transfer of power from the bureaucracy to an Executive responsible to the elected Legislature, the fiction of fiscal autonomy for the Government of India would automatically mean fiscal autonomy for a *responsible* Government of India. This hope was further strengthened by the fact that the Statutory Commission (under Sir John Simon) did not propose to disturb the Convention. But as Professor Keith points out: "The justification for this position was that the Commission insisted that the Government of India should not be made

responsible to the Legislature, and it was felt that an official Government controlled by a British Viceroy could be trusted, while placing Indian interests in the foreground, not to be oblivious of the importance of British export trade and the moral claims of British workers for considerate treatment in view of the safety from external attack and the preservation of internal order secured by the connection of India with the United Kingdom."[3] On the other hand, as he further states, with the decision to give India a Central Government responsible to the Federal Legislature a new situation arose and the question now was whether any security could be provided in the new constitution for British interests. The original idea was to make provision for this security in a Commercial Convention between the Governments of the United Kingdom and of British India, and the Joint Committee felt the Commercial Safeguards introduced unsatisfactory restrictions which could be replaced by such a Convention. Section 118 of the Act, therefore, lays down that the safeguards might be waived by Order in Council, so long as such a Convention remained in force.

The principal provisions affecting fiscal policy and industries are as follows:—

(A) Section 12 of the Act lays down the Special Responsibilities of the Governor-General. Sub-section 1, cl. *e* and *f* are relevant. Clause *e* provides for "the securing in the sphere of executive action of the purposes which the provisions of Chapter III of Part V of this Act are designed to secure in relation to legislation." Clause *e* thus provides against executive discrimination in regard to matters which are prohibited to the Legislature, so far as commercial discrimination is concerned. (See *infra*).

In the Governor-General's Instrument of Instructions (Para XIII) this special responsibility is explained as requiring him "to differ from his Ministers if in his individual judgment their advice would have effects of the kind which it is the purpose of the said Chapter (Sections 111-121) to prevent, even though the advice so tendered to him is not in conflict with any specific provision of the said Act."

Clause *f*, on the other hand, lays down a special responsibility for the "prevention of action which would subject goods of United Kingdom or Burmese origin into India to discriminatory or penal treatment."

[3] *Letters on Imperial Relations etc.*, p. 197.

The manner in which this special responsibility is to be discharged is described in the Instrument of Instructions (para XIV) as follows: "......he should intervene in tariff policy or in the negotiation of tariff agreements only if, in his opinion, *the main intention of the policy contemplated is, by trade restrictions, to injure the interests of the United Kingdom rather than to further the economic interests of India.*" Secondly, he must intervene when the discrimination or penal treatment is through differential rates of tariff or through differential restrictions on imports, or when there is indirect discrimination by means of differential treatment of various types of products, or where the discrimination or penal treatment is not in form but would be so in fact.

Seeing that the special responsibilities will be discharged by the Governor-General in his own judgment and that whether a matter is subject to such special responsibility will also be decided by himself, it is clear that his decision in this respect is final and incontrovertible.

(B) Sections 111-121 deal with discriminatory legislation, but so far as fiscal policy is concerned, Sections 111-118 only are mainly relevant. Section 111 exempts a British subject domiciled in the United Kingdom from, among other things, any legal restriction in regard to the acquisition, holding or disposal of property, or the holding of any public office, or the carrying on of any occupation, trade, business or profession. The Section is not applicable to British subjects in the Dominions against whom discrimination is therefore permissible.

Section 112 prohibits discriminatory taxation of British subjects domiciled in the United Kingdom and Burma, as also of companies incorporated in the two countries.

Section 113 lays down that companies incorporated in the United Kingdom and the members of the governing body of any such company shall be deemed to comply with any Federal of Provincial law in India relating to the place or incorporation of a company, or situation of the registered office, or the currency in which its capital or loan capital is expressed, and in the case of members of the governing body, any law relating to place of birth, religion, race, descent, language, domicile, residence or duration of residence. Moreover, any such company or governing body would be entitled to any exemption for taxation or other purposes granted to any other.

Section 114 provides for similar rights in the case of a company formed by British subjects domiciled in the United Kingdom but incorporated in India.

Section 115 provides against discrimination in respect of ships on the British Register.

Section 116 states that companies incorporated under the United Kingdom laws and carrying on business in India shall be eligible for grants and subsidies paid by the Federal or Provincial Governments to companies incorporated in British India. However, it permits the Federal and Provincial Legislatures to enact a law requiring, in the case of a company which at the date of the passing of such a law was not engaged in British India in that branch of trade or industry which it is the purpose

of the grant or subsidy to encourage, that the company shall not be eligible for such grant or subsidy unless and until (*a*) the company is incorporated in India, (*b*) such proportion, not exceeding one half, of the members of the governing body as the law may prescribe, are British subjects domiciled in India, and (*c*) the company gives reasonable facilities as may be prescribed for the training of British subjects domiciled in India. For the purposes of this Section, a company incorporated in the United Kingdom shall be deemed to be carrying on business in India if it owns ships which habitually trade to and from ports in India.

Section 118 provides for the cancellation of the foregoing Sections dealing with discrimination in the event of a Commercial Convention securing reciprocal treatment is arrived at between the Governments of the United Kingdom and India. The Sections shall be suspended to the extent that they are replaced by provisions in the Convention. As soon as the Convention expires, however, the Sections will automatically come into operation again.

(C) In each one of Sections 111-116, there is a reciprocity provision stating that the Section will not operate if there are similar restrictions on companies incorporated in India etc., in the laws of the United Kingdom with reference to an identical subject-matter.

III

Conclusions

Let us briefly study these provisions. So far as the Governor-General's "special responsibilities" are concerned, we are told that the intervention of the Governor-General will generally take place when the intention of a fiscal measure is to injure British interests rather than to further those of India. As fiscal policy has to deal with foreign trade and India's foreign trade has been largely with the United Kingdom, this interpretation of the special responsibility is bound to prove a strait-jacket so far as any fiscal measures designed to grant protection to Indian manufactures are concerned. If he means to do so, the Governor-General can intervene on these terms in almost every case. The distinction drawn between discrimination in law and discrimination in fact is a further elaboration of this same possibility. Seeing that the Governor-General, in exercising his individual judgment, will be under the direction of the Secretary of State, it becomes clear that fiscal policy will in effect be guided from Whitehall.

As regards discriminatory legislation, neither executive

nor legislative discrimination is permitted. In this connection one writer observes: "In the matter of commercial discrimination what is *intra vires* of the Indian Legislature now will be *ultra vires* of the Federal Legislature in future if the proposed commercial safeguards are incorporated—as they have been—in the Constitution Act."[4] It is doubtful, however, whether the Indian Legislature had any power in fact to discriminate against British goods and companies: so long as the principle of responsibility did not find any scope in the Central Government, and fiscal bills emanated from the Executive, the Legislature could not be said to possess any powers in this regard. There is no doubt that the Centre, *as a whole*, had certain powers to legislate which it ceases to possess now; but those powers were derived from and exercised under the strict surveillance of the Secretary of State. We have already seen what was the true character of the Fiscal Autonomy Convention: that Convention was a hallucination and a hollow mockery. The Indian Legislature had absolutely no powers but to *agree* to such fiscal measures as the Executive presented. Thus prior to 1935, discrimination against British goods and companies was *ultra vires* of the Indian Legislature in fact, while under the Act it is now *ultra vires* of them in law.

The principal objection raised against the provisions regarding Commercial Discrimination is that they leave little scope for safeguarding the development of Indian industries, particularly the basic, key, and infant industries. Under the Act it is possible for any existing British company to avail itself to the uttermost extent of the benefits of protection at the expense of the Indian consumer, and the restriction regarding composition of governing body etc., applies only to companies established after the passing of a bounty law and specifically applies to bounty legislation only. Powerful British vested interests will find it perennially possible to hinder the progress of Indian national industries by spreading

[4] *The Reforms Scheme—A Critical Study*, by D. N. Banerjea, p. 66. Cf. also S. V. Ayyar's comments in *Indian Journal of Economics*, April 1936, pp. 429 ff.

their tentacles in the country under the aegis of protection in the future. No restriction of any kind, whether as regards directorate or employment of Indians, has been placed upon the existing British firms incorporated in India as well as in the United Kingdom. Since the passing of the Constitution Act, there has been a flood of "India Limited" companies to circumvent any legislation regarding even bounties. There has been great agitation in minds of the Indian public owing to this. If the aim of fiscal policy be to develop *national* industries, *whose ownership and control should remain largely with the nationals of the country*, this is a development fraught with the gravest danger to our future national existence. "Live and let live" should be and is India's principle, but she certainly cannot agree to the steady encroachment of foreign concerns, backed by powerful international finance, upon her industrial rights. It is one thing to maintain the *status quo* of British vested interests in India and quite another to shape the law in such a way as to actively encourage their hegemony. I think it should not be difficult for Indians to agree to maintain the strength and importance of British commercial interests in India at their present level, but we cannot be party to a proposal by which either the consumer's burden or the taxpayer's money is frittered away in bolstering up essentially foreign elements in the country at the expense of our progress. In his memorandum on Commercial Discrimination, Mr. (now Rt. Honourable Mr.) Jayakar stated: "What to my mind is most important is that India should have the right to impose conditions in the case of all future Companies who may desire to establish themselves in India in connection with the basic, national, key or infant industries......I do not think that it can be said that we would be raising a very important issue at the eleventh hour......" Actually, however, such a distinction between present and future British companies was drawn only in respect of the grant of subsidies, but not as regards other restrictions of company law. Every free country, which has the interests of its own industries at heart, imposes restrictions on foreign business; in the case of India, where the hegemony of foreign interests is of long standing, the true ends of a Fiscal Policy can never be attained unless the responsible Indian Government has power to discriminate.

As the British Indian Delegation appropriately pointed out, if such a power is not available, "India is bound to be driven to State Socialism as the only method by which the provisions of the Act could be circumvented."

What is the moral justification for the insertion of these Sections on Commercial Discrimination in the Act? Much was made of the "equality of trading rights" which British interests claimed at the time of framing the constitutional proposals. There is also a show of reciprocity in the proposals. The following explains the reciprocity provisions: "In pursuance of the policy of reciprocity between India and the United Kingdom, it is provided that no company or person is to benefit from these Sections, if and so long as, similar restrictions are imposed by or under the law of the United Kingdom in regard to companies in, and persons domiciled in, British India." Reciprocity interpreted in this sense is nothing but camouflage. It is well known and clear that British interests have nothing to fear from Indian companies, for they will not and cannot operate in the United Kingdom, in competition with powerful and established British concerns. Nor can it be imagined that British interests would permit such companies to get a foothold in the British market; the history of Indian shipping is testimony to the utter impossibility of the task. As Mahatma Gandhi observed at the Round Table Conference, the talk of equality of rights between the Britishers and the Indians is as preposterous as that between a giant and a dwarf. True reciprocity in this connection would have been to permit India to have her own legislation but subject to the possibility that Britain also might retaliate. That could be another sense of reciprocity. However, on the principle of "live and let live," I think, the constitutional proposals should have been so framed as to prevent the Indian Legislature from passing any laws adverse to the existence of British and foreign interests in India (whether incorporated in the United Kingdom or in India) at their present strength. The hegemony of British interests in India is no doubt obnoxious to national sentiment, but we cannot afford to forget that they have been partly responsible in developing the country and, from the political standpoint, also that so long as political powers are to be granted by

Britain to India, such grant must always safeguard British interests first. That is a reasonable attitude. But what has to be prevented and what is manifestly unreasonable is that with the growth of the Indian industrial economy the grip of British capitalism should be tightened. If consistent with the prosperity of Indians, foreign commercial concerns can be allowed to operate freely in India, it is incumbent upon the future Government of India to foster such a relationship; but, at any rate, it cannot be forced upon an unwilling people. Its consequences must be disastrous. In view of this, I think, the original impulse of the constitution-makers to base such a relationship on a mutually agreed convention would have been more welcome. The whole constitutional question is in the melting-pot once again and after the termination of hostilities, it will have to be settled in a generous and amicable manner.

CHAPTER XXII

THE FUTURE

No nation can have a high standard of life implying the blessings of physical, mental and cultural well-being, unless it has learnt to use the available man-power and materials for the maximum production of wealth. This primarily necessitates measures to increase the productive efficiency of labour; but there cannot be any rise in the productive efficiency of labour unless the fruits of scientific and mechanical progress are availed of by a people. A people, which would wrap itself up in the ignorance of its own orthodoxy, ignoring the lessons of experience provided by history, must go under, for the simple reason that it cannot go forward. The economic problems of India are neither quantitatively nor qualitatively different from those of other nations; they only appear to be so, because of the backward condition of the masses which alone is the differentiating factor. Science has a vast potential contribution to make to the economic and political uplift of India, if we would have it. When every nation in the world, which lays any claim to civilisation, is marching ahead and keeping abreast of world events, it would be criminal folly to lag behind in the fond hope that great things can be achieved by sticking to small methods. As Sir M. Visvesvarayya recently put it, therefore, "Industrialise or perish" must be the watch-word of those who would build the future economic structure of India. This does not mean that agriculture is to be neglected, but only that agriculture must be given its due place in the national economy and not allowed to exercise the dominating influence that it does at present on the economic life of India. There is no antithesis between the claims of industrialisation and those of agriculture: the development of industries is bound to be a factor of great value to the development and modernisation of agriculture in India. At present both in the industrial as

well as in the agricultural sphere, the country is suffering from the consequences of primitive methods of production. What is needed, therefore, is a system of comprehensive national planning to attack the basic problems of poverty, ignorance and physical and mental inefficiency.

Fiscal policy, rightly conceived, can be a potent weapon for national planning. It cannot by itself achieve wonders, but unless the commercial frontiers of India are properly guarded, no system of national planning is likely to succeed. It is indeed not necessary to countenance a self-sufficient or autarkic system for India, for the reason that autarky is a military ideal forced upon countries which have to depend upon others for their raw-material supplies, and that India is not one of such countries. On the other hand, self-sufficiency is being forced upon India by a tariff-mad world by its refusal to purchase her raw-material exports. The problem is steadily arising and will have to be faced sooner or later: India's raw materials, such as oil seeds, cotton, jute, and ground-nuts, which are experiencing a glut at present, partly due to the war and partly due to permanent conditions of over-production, will have to be utilised internally for the national industries and for the maintenance of national standards of life. For good or for evil, therefore, we are confronted by the necessity of having new industries not only while the war lasts but even in the post-war period. Some have been placing an almost devotional faith in the possibilities of the New Economic Order expected to emerge after the war, but we cannot assume away such a solution of our difficulties. We have to provide internal markets for our agricultural and mineral products to a growing extent inside the country and such markets can only arise if there is an all-round progress of industrialisation and a consequent rise in the standards of life: thus alone can we discharge our responsibility and duty towards agriculture and the extractive industries.

The riddle of India's poverty and its array of vicious circles can be resolved only if we make a frontal attack on the problem of Unutilised Resources. This implies a silent revolution in the technique of industrial and agricultural production under the auspices of the State. Technical

education, industrial research active participation in the development of existing and new industries, State patronage, facilities for cheap credit, efficient transport and marketing—these and several other functions must be forthwith assumed by the State to the fullest extent. In India, unfortunately, the business of governance is still being largely carried on along the lines of out-worn, Victorian ideals of *laissez faire*. Where even democracies of the full-grown type have been found to be wanting in respect of efficient handling of the economic *milieu*, what can one say of a semi-bureaucratic democracy like India? There is no doubt that the urgent problem before the country is the adaptation of this antediluvian machinery of the State to the needs of the modern age.

The war has found us still groping, but the Indian industries have been necessarily affected by its impact: they are making their contribution to the success of the British cause. The Roger Mission and the Eastern Group Conference have been significant events. The Board of Scientific and Industrial Research, recently constituted, bids fair to be the nucleus of the future national organisation for the advancement of industrial knowledge. The Government too have announced that after the termination of hostilities they intend to appoint a Fiscal Commission to make a thorough enquiry into the problems of trade and tariff. Sir Ramaswamy Mudaliar, the Commerce Member, has more than once stated that the Government would grant assistance to industries started during the war, provided they are run on efficient business principles. Such assistance is being given at present, as part of the "war effort," to industries assisting the Government in the prosecution of the war, after prompt departmental enquiries. In the absence of the Tariff Board and also in view of the better despatch, such departmental enquiries can be relied upon to be helpful, at least so far as the war industries are concerned. But the real difficulty is as regards the new industries that are arising under the shelter of war conditions and which will have to face the competition of foreign industries in the post-war period. As on the previous occasion, the aftermath of war is bound to result in a stampede for safety. What part do the Govern-

ment intend to play in providing security to such industries? The second Fiscal Commission will no doubt investigate the question and will be reporting in due course, but if it is not going to be another case of bolting the door after the horse has been stolen, it might be as well to think out how best such safety measures can be provided. The problem of combating the after-war slump is going to be the true test of the Government's strength and skill in fiscal management.[1] It is imperative that until the Fiscal Commission has reported, and the Tariff Board has been re-constituted and actually disposed of the pending cases, the nurselings of the war period are given the shelter of an adequate protection. This must be provided to all the industries by means of a temporary increase in the tariff to be adjusted later. As Dr. Dey says, "pending the necessary enquiry that will have to precede the grant of protection, there must be a period of general protection through an Emergency Import Duties Act, levying high, almost prohibitively high, duties on most classes of imports. The act should remain in force for 3 to 5 years ......A mere vague assurance on the part of individual members of the Government is far from adequate to meet the needs of the case. In order to inspire confidence in the public mind as to the intention of the Government regarding the adoption of a full-blooded system of protection in the post-war period, it is necessary that their policy should be shaped into a concrete form.[2]"

Reorientation of the fiscal policy will thus be necessary after the war. In this connection, we may briefly recapitulate some of the suggestions discussed in the foregoing pages. Firstly, the formula of Discriminating Protection needs overhauling: it should be replaced by a simpler, more sensible and more straightforward formula. The rigid conditions of that formula must be revised somewhat along the lines of the British Safeguarding of Industries Act. The condition

[1] *Cf.* Dr. P. S. Lokanathan's illuminating article on "After-War Economic Problems" in the *New Review*, October 1940, pp. 287 ff.

[2] In an article on "War-time Industrial Policy of India" in the *Hindusthan Standard*, National Industries Supplement, November 1940.

regarding raw materials, in particular, must be considerably relaxed. The best method of doing this will be to judge of the natural advantages of any particular industry from the final figures for the costs of production, present and future, as computed by the Tariff Board, and not piecemeal from the enumerated conditions of raw materials, labour supply etc. The third condition of the formula must be dropped as being of the nature of a forecast rather than a condition precedent. Secondly, the machinery and procedure of the Tariff Board must be drastically revised, and the present system of hurdles and bottlenecks must be abolished facilitating a straight reference to the Board, which should also have powers to initiate enquiries itself. The personnel of the Board also must be made more responsible to public opinion and the present predominance of the official element reduced. Thirdly, there must be a clear-cut division between (*a*) Developmental Protection; (*b*) Safeguarding; and (*c*) the Revenue Tariff;—the purpose and function of each being clearly defined and understood by all concerned including the Government. Fourthly, the revenue tariff, in so far as it affects the development of industries, must be subject to the review of the Tariff Board. Fifthly, from time to time, the Government must encourage the development of essential new industries by means of an "experimental tariff;" if in spite of the tariff, the requisite industries do not come into existence, it should be open to the Government to withdraw it.

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